

**Policy-Making for National Pensions
in the Republic of Korea.**

By

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Declaration.

I hereby declare that the work presented
in this thesis is my own work unless
otherwise stated in the text and that the
thesis has been composed by myself.

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Abstract.

This study attempts to examine the development process in which social security provisions have been established, and to expose factors related to the rise and development of social security programmes in developing countries. The dynamics involved in the evolution of social security programmes in developing countries are not merely pale reflections of the processes promoting such developments in hegemonic centres. Rather, they were deliberately adopted according to their needs and according to the circumstances of the countries. In this analysis, therefore, we explore some of the factors affecting social security policy development which play particularly important roles in policy-making in developing countries in order to establish the most suitable pattern of the social security policy. As the major social security programme in Korea, the National Pension programme provides the focal point of analysis, from its enactment in 1973 to its much postponed implementation in 1988

In order to ascertain how the National Pension programme was adopted and what directed its development, four theories of social security policy development have been considered. The first focuses on the role of socio-economic developments in providing the impetus for and constraints on social security policy development. The second centres on the role of pressure groups in urging the development of these programmes. The third interpretation emphasises the impact of an authoritarian political elite, which act in an entrepreneurial fashion to promote certain state interests and preserve system stability. Finally, the impact of international policy diffusion from hegemonic centres to periphery nations and among geographically contiguous nations, is considered.

This study has drawn several conclusions which are expected to throw some light on the future study of social security development in other developing countries.

First of all, the central motivation for the adoption of the National Pension programme came less from economic trends and characteristics than from the needs and interests of a key political elite. This study provides much substance to the authoritarian-corporatist interpretation of social security policy development in Korea.

Two other factors played supportive, although less important, roles in this process-- policy diffusion influences from advanced industrial nations and socio-economic developments. However, this study discovered that the relationship between socio-economic development and the National Pension programme was ambiguous, mainly because the industrial development process in Korea was different from that in the industrialised countries.

The study suggests that development of social security programmes in the developing countries do not necessarily replicate those in the developed ones and that factors, like political ideology, cultural values, and the economic position of the individual society also exert a profound impact.

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Chapter 1. An Introduction to Policy-Making in Korea.

1.1. Purpose of the Study.

The modern state has become increasingly involved in regulating social interactions and distributing resources to its people. One of the most important functions which the state has come to perform is the provision of social security services for its populace. Most of the countries in the world have some type of social security programme.

There are numerous studies in the area of social policy, especially on the development or evolution of the social security system. Most of the studies done on this topic fall into one of two categories. There have been several broad, cross-national, statistical studies which, of necessity, capture only the most general forces affecting social security policies. Whilst these studies have offered some important insights into the processes affecting social security policy development, they suffer from their unavoidably abstract character and from a tendency to oversimplify complex realities. On the other hand, numerous case studies exist which capture these dynamics and provide an invaluable supplement to the cross-national studies. Most of these studies covering one or a small number of countries have focused on the social security policies of advanced industrial nations. In some ways, this is understandable. Those nations tend to have the oldest and most extensive programmes, and they have frequently been innovators in this policy field. Thus, analysis of these programmes can be very rich and rewarding.

Unfortunately, however, the social security programmes of the developing countries have generally not received this type of sustained and systematic scholarly attention. The assumption that, as Rimlinger mentioned, the latter systems are reflections of the programmes which existed in the advanced industrial nations earlier in this century constitutes a central reason for this neglect. Rimlinger points out that:

“The developing countries are in a special situation. They can borrow from a wide range of patterns of social protection that have proved successful in countries that industrialised earlier. The developing

countries,.....their problem is one of choosing the most suitable pattern.”¹

Assuming that the development of social security programmes in developing countries basically follows in the footsteps of programme development in advanced industrial nations, and that their future development will constitute a replication of patterns currently evolving in the industrialised centres, the analysis of these systems has been deemed less rewarding. In our judgement, this assumption is fallacious. The dynamics involved in the evolution of social security programmes in developing countries are not merely pale reflections of the processes promoting such developments in hegemonic centres. Rather, they were deliberately adopted according to their needs and adapted to the circumstances of the countries. In this analysis, therefore, we will attempt to explore some of the factors affecting social security policy development which play particularly important roles in policy-making in developing countries in order to establish the most suitable pattern of the pension policies.

In this study, I have chosen to focus my analysis on the development of the Korean National Pension scheme. The Korean government enacted the National Welfare Pension Law in 1973 in order to institutionalise a more comprehensive and universal pension programme. The purpose of this system was “to contribute to the protection of the secure life and welfare of the people” by providing protection to workers and their families against loss or stoppage of earnings resulting from retirement, death, or disability. However, even though its necessity has always been affirmed, the implementation of the scheme had been postponed several times. On 1st of September, 1986, the government at last announced that a new National Pension system would go into force in 1988. This programme would provide retirement pension, sickness and survivor’s benefits. The National Pension system has been chosen for a detailed account of the policy-making process in Korea, because social insurance can be regarded as the ultimate determinant of distribution patterns only in the formal sense that it has established the legal framework within which social, economic, and political

¹ Gaston V. Rimlinger(1971), Welfare Policy and Industrialization in Europe, America, and Russia, New York: John Wiley and Sons, Inc., p. 334.

factors interact. Further, Korea was selected not only because of my own experience, but also because of its ability to contribute theoretically to this discussion for the following reasons.

First, as we identified, the theme of the development of social welfare is that the level of social security development in a society is closely related to the level of industrialisation and the effect of industrialisation on other social institutions. Korea has had one of the fastest industrial economic growth rates in the Third World since the early 1960s, making it an economic success story worthy of analytic attention. Various economic aggregate indicators show that the social structural changes that have happened in Korea since 1960 constitute a 'miracle' in the most positive sense of the word. From the early 1960s to the 1980s, the country adopted the rationale of the 'trickle down' effect to encourage involvement of the people in this state-initiated economic development. The logic of 'trickle down' has often been promoted to support the pattern of government activities described as a 'growth first, distribution later' policy. However, the 'distribution later' part is still especially problematic. Recent political turmoil in Korea is based on the problems associated with this lagging distribution of the already increased wealth, having pursued a consistent policy giving priority to economic development planning over social policy development. Many Korean people now believe that this may be attributed primarily to the fact that the benefits of growth were unevenly distributed and failed to reach the poor. They argue that growth without redistribution results in the concentration of wealth in the hands of the few and in the exclusion of the poor from development. They believe also that entrenched inequality hinders economic development. This characteristic facilitates a careful and realistic analysis of the impact of economic expansion on social security policy development in developing countries.

Secondly, the Korean political culture has been and still is molded by historic residues of the heritage of Confucianism and by a high degree of ethnic homogeneity that, eventually, disposes most Koreans, especially the masses, to a submissive authoritarian political psychology that tends to legitimize the moral authority of the upper strata. During the period of economic development, the authoritarian government implicitly promised redistribution to the people who were involuntarily thrown into the process of

rapid societal change. This promise implies that the degree of responsibility felt by the government and by the people in Korea should be different from that of the society's. This distinctive characteristic of the paternalistic government and its state-induced industrialisation will form a unique feature of political development surrounding the issues of equality and social welfare in Korea.

Thirdly, the historical contexts of social security policy performances in Korea differ greatly from the European's modernisation approach and the Latin American's of dependency perspective. Various specific cultural and historical factors form the unique social situations in Korea. Historical experience, religious ideologies, and dominant cultural values are embodied in individual lives, prescribing patterns of interactions among individual, family, community, and nation. Those factors and the resulting situations might not have existed or might not be similar to those in the Western experience of social upheaval during industrial revolutions.

Without understanding these factors of Korean social change, it is difficult to apply existing theories of social changes and social security development, theories which derived from social environments very different from Korea, to the Korean situation. In order to make them more applicable to Korean society, those foreign born theories will be more clearly examined in chapter three.

Fourthly, social insurance will receive most attention since it is widely regarded as the most useful type of programme² today for a number of reasons. The first is its' sheer size. Government sponsored pension schemes constitute the largest and most expensive income maintenance programmes provided under the social security systems of the advanced capitalist democracies. Secondly, pension policy has potentially important implications for redistribution. Pension policy plays a prominent role in the distribution of resources to the elderly. Government retirement pensions comprise the bulk of financial resources available to this portion of the population. It is a clear case of a situation where political decisions rather than market forces may be the major determinant of the standard of living for

² James Midgley(1984), Social Security, Inequality, and the Third World, New York: John Wiley and Sons. p. 84.

a given group of individuals. Moreover, pension policy contains within it the potential for redistribution both across age groups, i.e., between the elderly and the rest of the population, and across classes within the elderly population. Finally, and perhaps of most importance is the potential impact of pension policy on control relations in the economy. The development of pension funds represents the growth of an increasingly important pool of capital. This capital is a source of credit and investment and thus of control in the economy. The existence of these funds, then, represents the possibility for profound changes in control relations in the economy.³

Finally, although the Western economists have made effective use of the opportunities afforded by the Koreans to test theories of political economy and economic development, few Western social scientists from other disciplines have sought to gain theoretical insights from the experience of the Korean society. On the other hand, even though many of the Korean social scientists trained in the Western countries (mainly highly industrialised countries such as the United States, the United Kingdom, Germany, and France) have introduced the Western social theories and have applied these theories to the Korean society, social security policy-making is still in the embryonic stage of academic conception in Korea. Though an increasing number of scholars, such as Nam-Jin Jun⁴, Joon-Kyu Sohn⁵, Oy-Sung Hyun⁶, and UI-Im Oh⁷, are attempting to learn more about policy-making processes, it is not yet widely practised.

Therefore, it can be said that the significance of this study is two-fold. First, the case study of the development of a social security pension programme in Korea can provide the Western social scientists with a unique opportunity to

³ John D. Stephens(1979), The Transition from Capitalism to Socialism, London: MacMillan Press. p. 178.

⁴ Nam-Jin Jun(1980), "Establishment of the National Welfare Pension System in Korea: Policy-Making Process in the Context of National Development in a Developing Country," Unpublished Ph.D Thesis, The University of Chicago.

⁵ Joon-Kyu Sohn(1983), Social Welfare and Social Development, Seoul: Chibomundang. In Korean.

⁶ Oy-Sung Hyun(1983), "A Study on the Formulation Process and Its Characteristics of a Social Welfare Policy for the Aged in Korea," Unpublished MSC. Thesis, Seoul National University. In Korean.

⁷ UI-Im Oh(1988), "Practice and Patterns of the Policy Formulation Process for Social Welfare in Korea--The Case from the 3rd through 5th Republic--," Unpublished Ph.D Thesis, Kun Kook University. In Korean.

observe the process of development of the Korean social policy, and enhance the validity and universality of existing social policy theories. Secondly, this study can provide the Korean social scientists with opportunities to look at the extent of applicability or otherwise of the Western social policy theory to the Korean society.

If one is to believe that such a study will contribute anything to the understanding of the development of social security policy, one must accept two major assumptions: that case study can throw an important light on political processes and that such processes are significant determinants of policy designs. Since both these assumptions fall well short of universal acceptance, we will discuss them more fully in the second chapter. That is, in chapter two, we will attempt to suggest some of the factors affecting social security policy development which play particularly important roles in policy-making in the developing countries. All these aims, we hope, are apparent.

In this remaining introductory chapter, we will consider some of the main issues which these aims raise.

1.2. Method of Investigation.

The information and data concerning Korean national pension policy for this study was obtained primarily in two ways: library work and interviews with people who are judged to have played an important role in the development of the social security pension programmes. This method comes from the nature of the policy-making process in Korea.

1.2.1. Library Work.

Primarily I will rely on content and interpretive analyses, using available historiographic materials and relevant statistics. Apart from newspapers, books, monthlies, periodicals, journals, unpublished research papers, census data and other statistical compilations available in libraries, materials and data on the government side were obtained from the several

government agencies, including the Ministry of Health and Social Affairs(herafter the MOHSA), the Economic Planning Board(herafter the EPB), and the Administration of Labour Affairs(now the Ministry of Labour, after March, 1982). For the labour unions at the national level, data including printed materials was acquired from the Seoul headquarters of the Federation of Korean Trade Unions(herafter the FKTU). Others were provided by employers' associations like the Korean Employers' Association, the Chamber of Commerce and Industry, and Federation of Korean Industries(herafter the KFI).

For the most part, therefore, the data-base of this study consists of public records such as government documents. One must also understand the particular nature of newspapers and semi-academic monthly journals in Korea. It is apparent that the freedom of the Korean press and media was significantly reduced by the imposition of authoritarian rule. Newspapers, however, are an important source of information for the 'inside stories' of a particular bureaucratic apparatus as well as private organisations of the old regime. I believe that censorship on social problems is less severe, compared that on reports of political criticisms toward the Park and Chun regimes. Semi-academic and popular monthly magazines which specialise in material dealing with political and socio-economic issues, will be an invaluable source of data.

In the gathering and examining of these materials, I was confronted with several difficulties.

First, I have to mention about the credibility of statistics in Korea. For this analysis, I was forced to rely on the official statistics because no alternative data at the national level was available. Despite occasional praise of the official Korean statistics by some foreign economists, there are doubts as to their reliability. The reason is that some economic statistics sensitive to the public were under close supervision of the high authority at least during the period under review. Taking account of the facts, for example, that GNP growth rate targets were finally set by the president himself, higher than those initially set by the EPB, and that every effort was made to achieve the final targets, the possibility of distortions of statistics on economic performance can not be excluded.

Secondly, the difficulty of translation between two languages should be referred to briefly in advance because most of my materials connected with

the Korean social security policy-making were written by Koreans. Therefore, in the following chapters, readers will find some awkward, and even amusing English words and phrases, which are translated literally and directly from Korean. It is inevitable because most of the Korean concepts and shades of meaning have no equivalent in English, and vice versa, and to do otherwise would destroy or distort the Korean meaning.

Thirdly, in relation to the second problem, I tried to use my materials written in English as much as possible for two other reasons, even though I am doubtful about the credibility of these materials. Firstly, as I mentioned before, one of my purposes of this study was to provide the Western social scientists with an opportunity to observe the development of the Korean social security policy. For this reason, English materials would have enhance their understanding. Secondly, as we will see in the following chapters, Korean government exercised a rigid censorship on printed materials during the research period from 1973 to 1986. Further, the college and university professors were suppressed under the Academic Tenure Law from 1976.⁸ Under these circumstances, associations for studying social problems, socialisms, and the like had no chance of publication.

Fourthly, among Korea's four chief Executives and twenty-one Ministers of Health and Social Affairs from 1955 to 1986, not one has written a detailed account of his observations on selected topics. It is , therefore, difficult to deal with the study of social security policy-making process in Korea.

Finally and most importantly, in Korea, with its much more closed system of government policy-making, it is more difficult to gain access to source documents. The secrecy of Korean policy-making prevents those involved in decisions from writing accounts which 'tell the story.' Many portions of government-related materials would be either confidential or would not have been allowed to be circulated outside the group of authorised and policy-makers. To make matters worse, I was isolated from the list of recently released materials by living in Edinburgh. However, I was fortunate in being

⁸ The law was officially described as being designed to get rid of 'idle' and 'incompetent' instructors from 31 public and 67 private universities. However, this law was utilized as an efficient step to control of professors. For example, the regime forced resignations or dismissals of more than 400 professors in March 1976. Three-quarters of them were estimated to be for political reasons. The agents of the KCIA demanded that school administrators halt all extracurricular activities held by professors, such as political writings, civil rights or charity work, or private study and religious activity.

able to gain access to two government files which contained a great deal of information about the social security pension policy-making process.

1.2.2. Interview.

To supplement the last problem, often the only way open to the researcher is to interview participants in policy-making. This technique has its drawbacks. A field trip of 15 weeks to interview and research additional documents took place from June to September of 1989. During this period, 28 interviews were conducted with 23 individuals who were involved in the national pension policy making process directly and indirectly. Most of these people are past and present occupiers of key administrative positions within the MOHSA, EPB, Korea Development Institute(hereafter the KDI), professors, representatives of the FKTU and Employers' Association(See Appendix 1). In addition, to obtain more thorough information about internal dynamics of policy-making, the structured interviews by a written questionnaire were confined to interviewing only those who were not available during my field work period. For this, therefore, prepared a questionnaire to be mailed to them. Apart from that, I conducted an extensive series of personal meetings with government officials at the bureau and the section levels, academic experts, and so on. To prepare and conduct the interviews with them, I had to overcome several problems.

First, individuals had to be identified as being knowledgeable on the subject of development, there would clearly be misperceptions. The only way to overcome this would have been to adopt a snowballing procedure, beginning with the most prominent and obvious individuals and attempting, through them, to discover other important actors.

The second problem in using interviews to investigate policy-making process was that of the credence which could be given to the accounts of the representatives. Respondents were not always able to remember events that took place as much as fifteen years before. To solve this problem, I contacted interviewees a few days before and confirmed my questions. However, only in some cases was I able to check on the validity of respondents' memories, and that largely through good fortune regarding access to documents.

Finally, Korea's high-ranking public officials rarely wish to expose their own doings, for it has never been in their tradition to do so. A more important reason may be attributed to the vague fear that one's revelation of the nature of his work during his tenure of office might cause injury to those who were involved in a particular decision and thereby bring about personal wrath and uncertain political consequences from a regime still in power.⁹ In fact, some respondents, on the one hand, refused to be interviewed, others, on the other hand, felt uncomfortable about the interview. For the latter reason, I have not always given full references in my thesis to respondents.

Regardless of these problems, they provided this researcher with the information which gave the best insight into the operations of policy-making process.

1.3. Using Case Study.

My work has a methodological aspect which needs to be examined--the use of case study. The use of case study has proved an attractive way of illustrating and conveying the rich detail of various kinds of events. Therefore, a case study is instrumental in conducting a more in-depth analysis of a chosen case. It also proves to be useful in generating assumptions and refining a theory.¹⁰ Thus, it becomes 'heuristic.'¹¹

As a research method, however, its status remains somewhat dubious. It is hard to define the case study in social science since it seems to be as varied as the uses of other forms of data. In a sense, the case study is more easily seen as a data source rather than a method of enquiry. Having said this, it is clear that the many different uses of case studies complicate attempts to present the problems of case study data or case study methodology.

⁹ Young-Nok Koo(1985), "Foreign Policy Decision-Making," In Young-Nok Koo and Sung-Joo Han(Eds.), The Foreign Policy of the Republic of Korea, New York: Columbia University Press. p. 15.

¹⁰ Neil J. Smelser(1976), Comparative Methods in the Social Sciences, Englewood Cliffs, N.J.: Prentice-Hall. p. 199.

¹¹ Malti Dogan and Dominique Pelassy(1984), How to Compare Nations: Strategies in Comparative Politics, Chatham, N.J.: Chatham House Publishers. p. 109.

Looking at a variety of authors, some suggest that the aim of the case is to produce generalisation. The problem of the case study is how to achieve this. Bryden argues that case studies, it is commonly alleged, contribute nothing to the development of a science of politics.¹² Since case studies deal with unique confluences of events, they are not cumulative. They do not provide a basis for rigorous testing of hypotheses with a view to the formation of valid generalisations of increasingly broad applicability, of scientific laws even.¹³ Hall et.al. also would seem to have such a use for case studies in mind in their analysis of the decision-making process. They point to the danger that superficial and misleading generalisations can pass as credible and satisfactory. This leads to the demand for a conceptual orientation within which case studies are used.¹⁴ As they point out, case studies may undermine a hypothesis but they can not validate it.¹⁵ Therefore, case studies lack predicted and *ipso facto* genuinely explanatory power. At best they have produced intuitions and insights of varying degrees of interest and provocativeness.

A remaining question to be discussed is that, having suggested that case studies allow for theoretical conceptions to be made more consistent and expanded, how can decision-making be studied using case studies? There is no substitute for the case study in one vital aspect of policy study. Pheobe Hall et.al. mentioned that its application to the study of policy developments elicits two main types of criticisms: first, that the approach has not been employed in sufficiently a scientific way to advance theory; and secondly, that the case study does not lend itself to generalisation however carefully used.¹⁶ Furthermore, Salisbury states the argument against it as applied to policy-making: "policy is necessarily an abstraction...to be approached through aggregative or summarizing analytic procedures. It is patterns of behaviour rather than separate, discrete acts which constitute policy. The

¹² Kenneth Bryden(1974), Old Age Pension and Policy-Making in Canada, Montreal: McGill-Queen's University Press. p. 5.

¹³ Raymond A. Bauer and Kenneth J. Gergen(Eds.) (1968), The Study of Policy Formation, New York: The Free Press.

¹⁴ Pheobe Hall, et al.(1975), Change, Choice and Conflict in Social Policy, Gower. p. 17.

¹⁵ Ibid., p. 15.

¹⁶ Ibid., p. 13.

concept of policy is thus anti-case study in its implications for research strategy and encourages controlling for idiosyncratic variables."¹⁷

There are many factors to be considered in the analysis of policy formation and this makes the testing of hypotheses a complicated business. One of the indictments of the case study is that although it may describe this multiplicity it offers no means of dealing with it analytically. Questions about the interdependence, overlap, weighting or relevance of variables are, it is argued, not taken into account in the case study approach.

Case studies, used systematically, have a certain heuristic merit and it is upon this ground that they can best be defended:¹⁸

First, the method is as effective as other approaches in suggesting general propositions about how policy develops; Secondly, the case study is a valuable means of conveying the immensity of the task confronting those who embark upon the journey from description to generalisation in this field; Thirdly, at a time when the strengths and weakness as of positivist social research are also being weighed in the balance, some of the advantages of the case study show that this may be a better approach for the exploration of the meaning actors attach to their behaviour in policy-making situations.

Since Korea has been a country where the strong state has led to economic prosperity as well as persistent authoritarianism, the selection of Korea as a single case is expected to highlight those advantages. In Korea, furthermore, one can justify either approach on the ground that basic research into political and socio-economic process, other than those of a constitutional-legal nature, is still in its infancy.

¹⁷ Robert H. Salisbury(1968), "The Analysis of Public Policy: A Search for Theories and Roles," In Austin Ranney(Ed.), Political Science and Public Policy, Chicago: Markham Publishing Company. p. 153.

¹⁸ Hall et.al., Ibid., p. 16.

1.4. Analysing the Policy-Making Process.

As mentioned before, a case study approach raises a methodological question. One of the most important issues in considering methodology is the way in which the methodological approach can not be separated from the theoretical approach with which the objective of study is examined. The connection is worth considering in explaining my own approach.

Perhaps the key issue in considering methodological approaches to the study of social policy is the question of why one should examine policy-making process if the nature of the process is already known? Social policy, its scope and the means used to bring it about are the product of politics. But to understand social security politics it is not sufficient to understand the context in which conflict takes place and the interests of the groups involved. Politics is also revealed through actions. Politics came alive through a policy process. The process must be probed to reveal the interaction between the different levels of conflict under inquiry here. Therefore, one of the main reasons, as Simeon argues, is that "what governments do can not be fully explained either by focusing only on the actions and perceptions of the proximate policy-makers or by stressing only the impersonal forces of the environment, such as levels of economic development, urbanisation and affluence... ." ¹⁹ The dynamic of confrontation and decision reflects the politics of social policy, i.e. the broad forces work which attempt to influence others in pursuit of some design. It defines the boundaries within which conflicts take place and implies a set of written and unwritten rules through which confrontation leads to policy. The study of policy-making process is defined and pondered in such a way as to avoid some of its shortcomings. The process is often the subject of inquiry and does not shed much light on politics. Here, the process is analysed in order to bring out the essence of politics. It will allow us to demonstrate the extent to which the setting and content of the debates have changed the nature of coalition, formation has evolved, the balance of forces has been altered and the connections between societal and governmental actors have shifted. Therefore, the dominant trend is that in some way the study of social policy-making can lead to 'better' policy-making.

¹⁹ Simeon, R.(1976), "Studying Public Policy," Canadian Journal of Political Science, Vol. XIX. p. 550.

John Edwards has suggested five reasons for studying policy-making: First, it is of interest and value in its own right; Secondly, we can learn more about the locus of effective power in society; Thirdly, it can be a means to making policy formulation more effective, efficient or streamlined; Fourthly, we may be better able to formulate alternative means of achieving given ends; Finally, there is the 'intelligence' function of a deeper understanding of the policy making-process.²⁰

This introduces firmly the criteria of relevance into the study of social policy-making. Therefore, a policy-making process includes the actions and interactions that produce the authorities' ultimate choice of a particular policy is contents over its rivals. Policy studies can also serve a variety of purposes. It is customary to label studies as being concerned with policy-making or contents or impact.²¹ Historically, most academic emphasis has been on the process of making policy, while reformers have called for greater attention to contents; studies of policy effects have usually run a poor third.²² However, like Heclo's approach, this study eschews any once-and-for-all choice among the three orientations because the content of a policy can itself be a crucial independent factor in producing effects on the policy-making process. Therefore, this study will approach the same phenomena from a more political perspective by asking which political forces have influenced the advent and extension of social policy, and we will look at proximate sources and causes. In other words, the questions are: how issues of social policy have arisen; where have the substantive ideas about what to do come from; what is the process by which they have been politically accepted and changed through time? In sum, this research attempts to explore the policy-making process that Korea follows to establish the most suitable pattern of the social security pension programmes. This is because little is indeed known, particularly about the actual choosing process, i.e., policy-making process leading to the adaptation of the social security pension programmes in Korea. We believe that such a study will contribute something to the understanding of the questions under consideration.

²⁰ John Edwards(1981), "Subjectivist Approaches to the Study of Social Policy Making," Journal of Social Policy, Vol. 10, pp. 289-290.

²¹ Hugh Heclo(1974), Modern Social Policies in Britain and Sweden, London: Yale University Press.

p. 5.

²² Ibid.

Abstracted from its historical dimension, policy-making can be visualised as a cycle consisting of five components: policy-initiation, policy-making, policy-implementation, policy-evolution, and policy-termination. Though interwoven in the real world, the components are nevertheless conceptually distinct, a factor which is analytically useful. The focal point is the policy-initiation, which is often described and will be described here simply as the agenda-setting. This agenda-setting refers to a course of action deliberately chosen and implemented to effect the desired consequences in some designated part of the relevant environment, which in the case of a public policy is the society at large.²³ The policy-making components are the links between the agenda-setting and the environment: the policy-making determines the nature of the agenda-setting, while the results produced by that agenda-setting in the environment are the policy outcomes. Some of the concepts of systems-derived analysis are useful in explaining the nature of the cycles. In such analyses the political system is conceptualised as a complex set of interacting variables in continuous interaction with their environment. Boundary exchanges between the system and the environment are classified into inputs and outputs, and inputs in turn, are subclassified into demands and support. To an extent both of these subsets are autonomous in that they may be affected by environmental changes occurring independently of the political system.

These five stages are applicable to the policy-making process in Korea. In this study, however, we will lay stress on the first two stages. This is because, in Korea, the plan takes on the form of direct, centralised bureaucratic planning which is characterised by a high level of coherence between policy-making and policy-implementing process. For both the consistency of the targets and the operational consistency of their realisation, the powers of the president and the KCIA are crucial in separating the planning and implementation process from any external political influences and controls, thereby minimizing 'distortion' and 'irrationality.'²⁴ Therefore, in a political environment like that of Korea, only the policy-initiation and policy-making itself are the most important policy-making processes. In other words, "who proposed the idea of the pension

²³ Bryden, *Ibid.*, p. 12.

²⁴ Kwang-Sik Song et.al., (1977), *Bureaucrats in Korea*, Seoul: Tarakwon. p. 44. In Korean.

scheme to the president,” and “how this proposal was deliberated” have had an effect on the policy-making processes.

In looking at the policy-making process, power is a key concept. This is clearly fundamental to much of my discussion of a rational technical mode of domination, since power is an aspect of domination. Many factors are involved in the policy-making process: the president, congress, the courts, the mass media, interest groups, bureaucrats, researchers, and political parties, and other socio-economic environments. Therefore, we have to explain what caused the actors and facts in each country to take the positions they did and which thus caused policy outputs to differ. To begin, we will choose seven groups²⁵ and conceptualize the causal relations between policy and actors in Korea as shown in Table 1-1. This conceptualization of policy-making in Korea is an important step as we begin to develop such analysis. As we can see in the Table 1-1, policy-making is a complex process. It involves several different groups of actors and facts at its different stages. In the remaining section, therefore, we will review the policy-making ladder and policy-making system in Korea. The policy-making ladder constitutes the most important institutions and actions especially relevant to policy-making process for national development, and the central planning system of the Korean government consists of “the five-year economic development planning system” and “the annual planning and programming system.”

1.4.1. The Policy-Making Ladder in Korea.

As we can see in the Table 1-1, the policy-making ladder is composed of three levels. In this section, however, we will examine the Level I and II actors, since we are not sure how the Level III factors shape the preferences of the proximate policy-makers and the influential factors. One can talk of

²⁵ These seven groups are: (1). the president and his staffs, the MOHSA and its research institution, the SSC, the EPB and its research institution, the KDI, and the National Assembly as a proximate policy-makers; the public, the FKTU, the FKI, and the press as an influential actors in the national pension policy-making process in Korea.

socialization, cognitive, learning, or consciousness building, but the degree of influence each factor has and how the factors work are far from clear.²⁶ In order to make Level III factors more applicable to the social security policy-making, therefore, we will examine the Level III factors in Chapter Two.

Table 1-1: The Policy-Making Ladder in Korea.

Policy made by	
Level I:	The Executive(president and his staffs, and bureaucrats), Political Parties and National Assembly.
influenced by	
Level II:	General Public,Media, Federation of Korean Trade Unions, Federation of Korean Industries, and International Actors,
shaped by	
Level III:	Environments(political, socio-economic, and international), culture, history and tradition.

Source: Ideas derived from the models of Douglas R. Boulter(1980), "Setting Speed Limits...and Comparing Public Policymaking," Comparative Politics, Vol. 13. p. 80.

A. The Level I Actors.

The Level I actors are the most important actors in the policy-making process, even though the Level II actors are involved in the policy-making process. This is because the power structure of Korea institutionally consisted of two poles; the Blue House(the Presidential Residence of the Republic of Korea) and the Korean Central Intelligence Agency(hereafter the KCIA) on the one side, and the ruling party, and the National Assembly on the other.²⁷

²⁶ Boulter, Ibid., p. 80.

²⁷ Jeong-Woo Kil(1986), "The Development of Authoritarian Capitalism: A Case Study of South Korea," Unpublished Ph.D Thesis, Yale University. p. 179.

(1). The Executive Branch.

Among the Level I actors, the most important feature that characterises the policy-making process during the regimes of Chung-Hee Park(1961-1979) and Doo-Hwan Chun(1980-1988) is the executive dominated and extremely centralised pattern--a pattern indicating that important decisions are not only made in Seoul but involve relatively few people at the top with strong centralised executive control. There is no doubt that the top policy-maker in the Korean government is the president. Naturally, this kind of political system makes the responsibility of the ruler extremely important. The centralisation of power toward the apex is a phenomenon that has occurred in a firmly established tradition since the creation of the First Republic.

In relation to the centralisation of power, the role of the Office of President cannot be underestimated. The presidential mansion or the Blue House, called the 'small cabinet,' employed many brains and also allocated these trained power holders to the cabinet or the National Assembly. The Office of the President consists of the central and personal staffs which act on the president's behalf. Those who directly assist the president in policy-making are the Special Assistants and Political Secretariats. The major functions that Special Assistants performed were to oversee the implementation of presidential decisions by executive agencies, and advise the president on important policy matters. This unit was very influential in presidential policy-making. According to the study by Dong-Suh Bark, one-third of the presidential instructions to executive agencies were originated from the Special Assistants.²⁸ The relationship between the president and these Special Assistants is more personal and informal than with cabinet ministers. The Political Secretariats are divided into four divisions: the First Political Secretariat deals with politics, political party matters, national defense, foreign affairs, and justice; the Second Political Secretariat deals with home affairs, education, and health and social affairs; the First Economic Secretariat has responsibility for finance, economic planning and other matters related to economic management; and the Second Economic

²⁸ Dong-Suh Bark(1967), "Policy-Making in the Korean Executive Branch," In Byung-Chul Koh(Ed.), Aspects of Administrative Development in South Korea, Kalamazoo, Michigan: The Korean Research and Publication. p. 34.

Secretariat handles matters relating to science and technology, defense industry, and heavy and chemical industries. The formal duties assigned to the Political Secretariats are to: (1). carry out general analysis of the present state of affairs and assist the president in formulating policies; (2). handle matters of planning and coordination under direct control of the president; (3). perform comprehensive analyses of conditions pertaining to each administrative branch; and (4). evaluate the performance of each ministry. The political secretariats performing these duties serve to link the president directly to each ministry, and their influence in controlling each administrative agency is very significant.²⁹ This has been due to the heavy concentration of political and administrative power on the president, and the dominating practice of authoritarian policy-making in the governmental process, together with the organisational characteristics of the presidential office. The presidential office has effectively served the enhancement of the value promise of national development planning by means of their substantial influences on important presidential policies. In a word, the presidency, among other centres in Korean society, has a unique capacity to contribute positively to making and implementing a creative social policy.

The centralisation of power at the apex largely determines the operational mode of the state bureaucracy. That is, the administration is primarily concerned with how effectively it carries out the decisions made at the top; so, it is best characterised as a performance-oriented administration. Through the planning and programming system and frequent on-the-spot-checking trips, the president has been directly involved in checking, guiding and facilitating the implementation of the plans by the concerned agencies. This practice has created direct information channels between president and executive agencies so that such direct information channels have a significant impact on the formal policy-making process. For this reason, some departments, such as the EPB, Defense, and Home Affairs, receive more attention from the president than others because they support him in the exercise of responsibilities that tend to be especially urgent; others,

²⁹ Bong-Sik Kim(1978), "Decision Rules and Economic Policy in Korea: Sociopolitical Analysis," In Se-Jin Kim and Chi-Won Kang(Eds.), Korea: A Nation in Transition, Seoul: Research Center for Peace and Unification. p. 154. And L.L. Wade and B.S. Kim(1978), Economic Development of South Korea: Political Economy of Success, Seoul: Kyung Hee University Press. pp. 220-221.

including the MOHSA are likely to command the president's attention only when trouble or an issue that requires his intervention to settle it, arises. There are well developed information channels between the president and the EPB. This practice serves to intensify the economic growth-optimizing process of the national development planning system. Once an information channel is opened between the president and an executive agency with regard to a specific policy, it commits the president to the policy, and other policy deliberation organisations tend to be subject to the president's commitment. For this reason, when a policy issue is likely to encounter opposition in policy deliberation organisation, the originating agency usually develops a strategy to inform and to win the support of the president before submitting the policy issue for consideration by the organisations. Due to these inter-agency politics, secrecy prevails in the Korean governmental policy-making process.

(2). The Political Parties.

Political parties can be a competing alternative to an expanding bureaucratic rule especially in the absence of well-institutionalised voluntary associations and interest groups which could have access to the policy-making process of the regime. Under the Fourth and Fifth constitutions in Korea, however, competitive party politics of the sort conventional in Anglo-American and other liberal systems are implemented only with modification, and the functional contributions of parties to policy process must be understood differently, at least to some degree. Political parties seem to perform only limited functions within the over-all political process in Korean society. They remain dormant during off-election years, and only become somewhat active during the period of election campaigns. They operate merely as a procedural device in the formalization of candidates for the National Assembly. Given the limited functional significance attached to political parties within the over-all political process in Korea, party salience is very low.³⁰ There are several factors that account for the low level of party salience in the Korean political process.

³⁰ Bae-Ho Hahn and Ha-Pyong Kim(1976), "Party Bureaucrats and Party Development," In Dae-Sook Suh and Chae-Jin Lee(Eds.), Political Leadership in Korea, Seattle: University of Washington Press.

First, Park distrusted civil politicians and abhorred party politics. He did not only think of the heroic leader as an ideal, but also considered behind-the-scenes negotiations and compromise in the process of politics as corruption.³¹ He was prone to believe that desirable national goals were achieved by disregard or suppression over the political oppositions. It could be said that Park's view of politics is to be labelled as Korean-type democracy. He preferred efficient democracy which would not hinder national security and economic development rather than inefficient Western democracy which was unfitting to the cultural tradition and the situation of Korea. He gave a preponderance to efficiency and order, consequently he preferred administrative efficiency rather than party politics and parliamentarism.³² Therefore, the president and his staff in the Blue House became the locus of highly centralised political power backed by competent bureaucratic institutions, namely, the KCIA in political matters and the economic ministers in promoting the economic growth.

Secondly, even though it appears that the diminishing role of political parties was caused by the ascent of president's personalised power, the political parties also suffered from the structural constraints. One of the major constraints against developing well-institutionalised political parties in Korean politics was the tendency to form political parties on the basis of personal affiliation rather than political principles or ideologies. Such personalised political parties are very likely to suffer from interparty conflicts and political parties neither sought nor were given the opportunity of representing particular socio-economic groups. Furthermore, under the tense situation of the political division of the country, even the concept of particular class interests were unacceptable. All the major political parties, thus, were explicitly conservative; they failed to establish political channels for representing the upward social and political demands of the broad range of social sectors.

Thirdly, under the Fourth and Fifth constitutions, they could no longer play a role in electing the country's chief executive. The presidential election system seriously undermined the status of the political parties *vis-a-vis* their

p. 69.

³¹ Won-Tae Kim(1987), "A Study of the Policy Orientation and the Governing Ideology of President Park Chung Hee," Unpublished M.A. Thesis, Kyung Hee University. p. 23.

³² *Ibid.*, p. 35.

leaders, since president Park and Chun no longer needed to rely on the political parties in order to be elected. Furthermore, under the Fourth constitution, one-third of the total number of National Assembly were to be handpicked by president Park. The ruling Democratic Republican Party(hereafter the DRP) and the major opposition party were expected to split the remaining two-thirds of the total seats. Under the two-member district system, the voter was allowed to vote for only one candidate; the top two vote-getters in the district were elected.

Fourthly, Chun disbanded all political parties of the Fourth Republic, purged their leaders, and ordered a multi-party system for the Fifth Republic. Twelve political parties emerged, but Chun's party became dominant and swept into power both in the presidential and legislative elections by the 1985 'election revolution.' As the president of the Fifth Republic, Chun himself obviously wished to see the Democratic Justice Party(hereafter the DJP) develop into a major instrument of his political rule by remaining as president of the party from its creation. The Democratic Justice Party was also instrumental in electing 151 of the 276 National Assembly members in the general election held on 25th of March, 1981. Of the 151 DJP members, 61 were delegates chosen in accordance with the system of proportional representation. Four years after the founding of the party and until the 1985 national election, the DJP expanded the membership to one million, all of whom went through the programme of party training. Despite the emphasis placed by the founders of the DJP upon the development of a modern political party, and their aspirations to play a substantial role in the governmental policy-making process, the ruling party has actually been accorded a minor role in formulating the major policies of government, acting simply as an administrative hierarchy or a handmaiden to a few leading individuals within the executive and the ruling party. On the other hand, after the absolute repression of the opposition forces by military-security forces during the martial law in 1979 and 1980, the opposition movement evolved in Korea through three distinct phases. During the first phase, which lasted until 1982, the opposition forces still under government repression, reconsidered its strategies and tactics. In the second phase, until 1984, the social forces were in the process of rebuilding grass-rooted democratic organisations in urban labour and rural sectors. A third phase, since 1984, constituted a period of active opposition by the formation of public organisations and through mass demonstrations. The New Korea

Democratic Party(NKDP) was formed in January 1985 basically from the political opposition organisation, that is, the Council for the Promotion of Democracy, led by Young-Sam Kim and Dae-Jung Kim since 1984. The new party won a third of the seats in the new National Assembly in February, 1985.

In a sense, contributing to the relative insignificance of the party system in Korea, political process is the relationship between the ruling party and the administration. The parties are less instruments of interest aggregation than of policy dissemination and propagation, as well as deliberation and legitimation. In order to elicit cooperation between the government and ruling party with respect to these latter functions, various formal mechanisms are maintained between them. All conflicts of political opinions are adjusted formally through these means. One of the formal mechanisms is the joint meeting which is attended by the relevant ministers and members of the policy deliberation committee of the ruling party. These policy consultations between the government and the ruling party function with the concerned government Minister without Portfolio and the policy-making Research Office of the ruling party as the participants. It is conventional for the government to introduce policy issues which reach levels higher than the Vice-Ministers' Conference to relevant party organisations for deliberation and information purposes. In this fashion, the party functions as an additional conduit through which public policies are disseminated to a wider elite, and through media coverage, to the general public. In this sense, the party is an important instrument of communication between the government and the public.³³

(3). The National Assembly.

The characteristics of the executive are but a first step toward understanding the agency's role in policy-making in Korea. However, the executive leaders alone can not make policy by themselves. The most authoritative expression of policy is law, and constitutionally it is the National Assembly's function to enact the law. To create the programme that the

³³ Bong-Sik Kim(1978), *Ibid.*, pp. 157-158.

executive planners of social security envisioned, they needed the cooperation of the National Assembly above all.³⁴

In the developed countries, legislatures have repeatedly delegated their authority to make public policy to the executive and administrative arms of government, as the issues to be decided have become more numerous, pressing, and technically complex. In contrast, legislatures in developing countries have either never exercised a policy-making authority, or have had that authority taken away by an executive seeking to monopolize political power.³⁵ Thus, suppression of the legislature by the executive in many less developed countries can often be explained in terms of the basic socio-economic structure of these societies. The legislature is also perceived by executive policy-makers as a body which lacks the expertise necessary to properly consider complex issues, and as a threat.

The Korean legislature was, also, no exception. Under the Yushin constitution of 1972, especially, the National Assembly became an even weaker body than it once had been. During the Park and Chun regimes, the concurrent power of the president and government bureaucracy emasculated the other two branches of Korean government, the legislature and the judiciary.

The formal powers of the legislative branch included the rights of legislation interpellation, concurrence to the conclusion of treaties and the declaration of war, and approval of government budgets. The offices in the legislative were organised to include a speaker, two vice-speakers(one of which was given by convention to the opposition party member), and the chairman of thirteen standing committees and special committees. The committee chairmanships have traditionally been occupied by the leading members of the ruling parties. The routine legislative work is performed by a relatively large staff in the secretariat. This legislative bureaucracy was headed by the Secretary-general, an office of cabinet level rank with a staff of more than 1,000 people. At the head of this staff were the senior counsellors, numbering between 30 and 40. The senior counsellors were the core of the professional staff, each being an expert in a legislative

³⁴ Martha Derthick(1979), Policymaking for Social Security, The Brookings Institution. p. 36.

³⁵ Chong-Lim Kim et.al.,(1984), The Legislative Connection: The Politics of Representation in Kenya, Korea and Turkey, Durham, N.Carolina: Duke University Press. p. 6.

subfield. They helped legislators to draft bills and provided expert counsel on various legislative matters.

Within the National Assembly, responsibility for social security has been located almost exclusively in the Committee of Health and Social Affairs. However, like other committees, the Committee has had a very limited role. This is because most bills originated in the executive branch, and their passage was almost always assured in advance due to the government's control of two-thirds of the legislative seats.³⁶ In Korea, party discipline was strong. In particular, the leadership of the ruling parties exercised tight control over its members so that it was very rare that a ruling party member spoke or voted against his party position. That jurisdiction has been so confined as to have had several important consequences for policy-making. It limited the opportunities for the National Assembly as a whole to get involved, since they only had the chance to act as an authorising legislation and were not given the second chance that normally comes when appropriations bills reach the floor. Debates were limited to several hours and amendments were prohibited except for those approved by the Committee. A motion to recommit the bill was permitted, but such motions always came from the minority party and almost always were defeated by a party-line vote. As a result, the National Assembly could do nothing but support the programmes and policies formulated by the executive branch. In this respect, the National Assembly could not be considered as exercising a full power in lawmaking.

Nevertheless, the National Assembly was regarded as an important representative institution by the public. Indeed, among elite groups, legislators are probably the most sensitive to the needs and demands of the public simply because they are subject to periodic approval by the voters. This was very significant in a political setting like Korea's, where other channels of citizen participation were not widely available. During this period, the National Assembly also served as an important public forum. Since government exercised tight control over the news media, the legislature served as the only alternative arena for public debates on important issues of the day. To be sure, there were many constraints, both

³⁶ See, Chong-Lim Kim and Seong-Tong Pai(1981), Legislative Process in Korea, Seoul: Seoul National University. pp. 171-185.

legal and *de facto*, on the range of issues that could legitimately be discussed in the National Assembly. The Assembly was prohibited by law, for instance, from raising any issue so fundamental that it touched on the matter of the regime itself. Insofar as the issues did not challenge the legitimacy of the governmental structure established in accordance with the military coups, the National Assembly would consider any issue for debate.³⁷

In sum, although most MPs in Korea are not men of power at the national level, their values are important insofar as they are regarded as leaders within their local communities and spokesmen for these committees in the legislature and other central agencies of the state. Because they are intermediaries charged with forging links between the mass public on the periphery of the political system and the top policy makers who control the institution of the state, the beliefs of the MPs are of interest, especially their definition of socio-economic and political development. Therefore, regardless of whether policy-makers accept the views and demands expressed by legislators, they must at least listen to what MPs say if they are to develop strategies through which their policies will be effectively implemented at the grass roots, and if they are to continue to command public support. Thus, while most MPs did not participate significantly in the policy-making process, they contributed substantially to the creation of the context within which that process occurred.

Turning to the locus of policy-making, we can conclude that policies were most frequently made in the legislature not by legislators but by the executive. In Korea, key policies were mostly made in the cabinet or government. The executive has historically played an important role in policy-making. The dominant role of the executive in the policy-making was almost total and was built upon three factors: (1). a constitution that favoured executive power; (2). the president's control of major parties in the Assembly; and (3). the personal stature of the president himself.³⁸

The leaders of the majority party worked closely with the government and often worked as the government spokesman to the legislature.

³⁷Chong-Lim Kim et.al., (1984), *Ibid.*, p. 62.

³⁸*Ibid.*

Constitutionally, both individual MPs and the executive were empowered to submit legislative bills. In practice, however, bills submitted by individual MPs were not only few in number but also had a significantly poorer rate of passage on the floor than government bills.³⁹ Moreover, the National Assembly seldom amended the government bills in any significant fashion. Legislative committees were not the centre of decision-making, and floor debates often concerned decisions already made elsewhere. However, the National Assembly was considered to be established and certainly an institution worth maintaining because it did attach a seal of legitimacy to the policies enacted by the executive. This legitimacy of the National Assembly was critically important to the executive, and was probably one of the main reasons why the Park regime and its successor under president Chun did not dissolve the legislative body.⁴⁰

In conclusion, in Korea, a large number of legislators failed to identify a simply and pre-eminent centre of policy-making, which suggests that the process of key policy-making involves a multitude of actors located in a variety of government agencies.

B. The Level II Actors.

The Level II actors are supplemental policy-makers and are somewhat controllable by the Level I actors. These non-governmental actors have no legal authority in policy-making but are important in terms of frequently providing ideas, pressures, and information to the primary actors.

³⁹For a detailed analysis of the origins of bills and other legislative activities of the executive, see, Chong-Lim Kim and Byung-Kyu Woo(1976), "Legislative Leadership and Democratic Development," In Dae-Sook Suh and Chae-Jin Lee(Eds.), *Ibid.*, pp. 41-66.

⁴⁰ Chong-Lim Kim et.al.,(1984), *Ibid.*, p. 38.

(1). The General Public.

Within the Korean political culture, there has been little experience among the masses in organising and institutionalising group interests for the purpose of representing those interests strongly to the government.⁴¹ The major barrier to establishment and healthy functioning of such associations is that "the government is often suspicious of such group."⁴² Therefore, even if people could participate in politics, it is not voluntary participation.⁴³ People's political participation was largely a result of the directives from above. By the same token, political participation in Korea might be termed 'mobilised participation' or 'political mobilisation.'⁴⁴ Assuming conversations and compromises as the prerequisites of politics, it was undeniable that coercion and violence replaced those prerequisites at the cost of people's participation and the regime's morality.

On the other hand, the attitude of administrators toward the masses is also governed by the hierarchical norm. Administrators accept the Confucian dictum that "people should follow established leadership without question, and should not be concerned about the knowledge necessary for the exercise of leadership(民可使田之、不可使知之)."⁴⁵ Therefore, administrators are supposed to rule and, at best, to teach and guide the masses. There is no real concept of the government as the "servant of the people," although "lip service is paid to such an idea." In traditional terms it is "government high, people low."

Consequently, the people are in the position of begging for special favour rather than requesting the government's abidance with legal provisions.

⁴¹ Ki-Shik Hahn(1975), "Underlying Factors in Political Party Organisation and Election," In Edward Reynold Wright(Ed.), Korean Politics in Transition, Seattle: University of Washington Press. p. 87.

⁴² Edward Reynolds Wright(Ed.)(1975), Ibid., p. 7.

⁴³ Won-Tae Kim(1987), Ibid., pp. 58-59.

⁴⁴ Young-Whan Kihl(1984), Politics and Policies in Divided Korea: Regimes in Contest, Colorado: Westview Press. p. 17.

⁴⁵ Edward Reynold Wright(Ed.)(1975), Ibid., p. 7.

(2). The Media.

The media affect the governmental policy-making not only by transmitting public opinion to them, but also by choosing a certain issue as being salient. In other words, the media are considered by policy-makers as a source of policy ideas and information as well as a source of political pressures. Cobb and Elder contend that the media have an impact on governmental agenda through an issue expansion process. They argue that the media have "a key important role in elevating issues to the systematic agenda and increasing their chances of receiving formal agenda consideration."⁴⁶ Policy-makers do not disregard the media's agenda, because one of the media's most important roles is to make an issue salient. Policy-makers always pay attention to the issues salient to the public.

The media in Korea, except for government-controlled organs, has a long history of irreverence for authority. However, during the twenty-six-year military rule, the media has suffered from continuous surveillance and often suppression. Political authorities have generally viewed any unsolicited criticism from outside as being detrimental to national security and interest. The control of the press, like that of students, was strengthened in the 1970s.⁴⁷ All sorts of media, including newspaper, journals, books, broadcast and TV tapes, came under strict government censorship, and letters of complaint to the editor were investigated by the police, on government suggestion. These political tools used to control the Korean people in general, such as the emergence decrees No. 1 and later No. 9, have been used to suppress freedom of the press.

The Ministry of Culture and Information, on the one hand, has established Special Screening Committees and held periodic conferences with media officials to instruct what not to report, and otherwise how to report and conform to the government's views on controversial issues.⁴⁸ The government, on the other hand, has entrusted the Ethics Committee of

⁴⁶ Roger W. Cobb and Charles P. Elder(1983), Participation in American Politics: Dynamics of Agenda-Building, 2nd Edition, Baltimore: Johns Hopkins University Press. pp. 91-92.

⁴⁷ For example, see, Sung-Jae Kang(1986), "The Park Regime and the Press Repression," Shindong-A, April. pp. 400-419. In Korean.

⁴⁸ Norman Jacobs(1985), The Korean Road to Modernization and Development, Chicago: University of Illinois Press. p. 54.

Media Associations to inculcate sufficient responsibility in individuals so that they will desist from expressing 'provocative' ideas. Under the hoary principle of collective guilt, the committees' officers themselves are held responsible and can be purged for their members' activities. Similarly, those who, even innocently, transmit or receive condemned material, such as book wholesalers and retailers who do not return objectionable items to publishers, can be punished.⁴⁹ But, just to be sure, the KCIA is authorized to investigate and remove what the ministry considers political communist subversives from the media.

In this process, there was a strong reaction from the press groups since late 1973. Newsmen joined college students and civic and religious leaders in their protest movements against the government, demanding what they called the freedom of the press.⁵⁰ The protest movement of journalists spread rapidly after the government worked out a plan to have newspaper publishers sign a pledge not to report student demonstrations and matters concerning the national security. The government, meanwhile, took measures to regulate press activities. On 28th of December, 1973, the Ministry of Culture and Information announced a three-point guide-line requiring the press to practice self-rule and to refrain from reporting stories that defy or negate the government's present ruling setup, endanger the national security and diplomacy, or create social unrest and threaten the foundation for social stability.⁵¹ Another fascinating example of media harassment was the state control of the advertisement in the Dong-A Ilbo(Daily News) in late 1974 as a means to repress the press. When the Dong-A Ilbo reported on a university demonstration on 23rd of October, 1974, its personnel were subjected to KCIA's violence, its papers stolen at distribution centres, its staff watched by the police, and certain of its managers, editors, and reporters pressed to resign. Moreover, the government tried to bankrupt the paper by applying pressure on its advertisers to terminate their advertisements.

⁴⁹ *Ibid.*, pp. 54-55.

⁵⁰ Hapdong News Agency, *Korea Annual 1974*, p. 233.

⁵¹ *Ibid.*, p. 234.

After this incident, while opposition legislators seized the rostrum of the National Assembly on 19th of March, 1975, the ruling party members met in the lobby and adopted the Bill Forbidding Any Adverse Comment to Foreigners. It forbade anyone to 'insult or slander' Korea or spread 'distorted or false facts' or harm the 'safety, interests or dignity' of Korea either abroad or by speaking to a foreigner in Korea. These measures were applicable to the remarks made by opposition Assembly members to foreign journalists or to dispatches filed by Korean newsmen working for foreign publications. Detentions and threats were effective in making journalists fearful. Editors, for example, refrained from publishing details of the government criticisms expressed by opposition figures. Publishers were fearful that advertisements would drop under government pressures if the papers printed anything the regime might object to. Reporters needed licenses to gather news, and the fear of being out of work through losing their licences constituted pressure to keep reporters in line.

A more structural and institutional repression of the media came with the emergence of the Chun regime in 1980. Chun found it necessary to organize the mechanism of the press in such a way that the state would control national opinion tightly.⁵² The military, which controlled and dominated the state apparatus, had expelled from the press those who were deemed anti-government elements or detrimental to the establishment of a new military regime.⁵³ However, Chun went further by conducting a drastic change of the Korean press in the name of 'self-renovation' of news media. Members of the Korean Newspaper Association and the Korean Broadcasts Association held a joint meeting to adopt the so-called "Resolution for Self-Regulation of News Media," which confirmed *ex post facto* a government design of restructuring the mechanism of the press on 4th of November, 1980.⁵⁴ The main purpose of the resolution was allegedly to "voluntarily effect a self-renovation by eliminating irrational elements of the past and preparing ourselves as modern public organisation."⁵⁵ According to this resolution, a large number of the mass media merged with the state-run

⁵² Young-Whan Kihl(1984), *Ibid.*, pp. 74-90.

⁵³ A total 711 reports were expelled as of 9th of August, 1980.

⁵⁴ Hapdong News Agency, *Korea Annual 1981*, pp. 416-417.

⁵⁵ *Ibid.*, p. 417.

Korean Broadcasting System, and the nation's two major agencies were combined into one in order to monopolize the supply of both domestic and foreign news to all local newspapers and broadcasting companies across the country, and all press organisations were banned from assigning resident correspondents to provincial cities. Many newspapers were ordered to suspend publication, resulting in "one newspaper per each province," except for Seoul, the national capital. Furthermore, the press was thoroughly controlled through the implementation of a new "Basic Law Concerning the Press," which was enacted by the Legislative Council under martial law. The government also installed an agency, the Public News Media Coordinating Office(PNMCO) within the Ministry of Culture and Information. The PNMCO was a potential instrument of news censorship. It prepared the so-called 'press guideline' everyday, on the basis of which newspapers and other branches of the media reported domestic and foreign news. In sort, the Chun regime exercised more repressive authoritarian control over the press than ever before.

(3). The Federation of Korean Trade Unions(FKTU).

As we will observe in the following chapters, labour organisations could not function effectively as independent interest groups under the Park and Chun regimes; rather they existed as a political arm of the ruling parties and the governments. These organisations were completely dominated by a leadership sponsored by the government, and they provided unconditional support for the regime. Therefore, the primary function of the leadership of the FKTU had been to mobilise support for the regime rather than to represent the interests of the workers.

The remarkable decline in the political power of labour unions was a reflection of the intensive and extensive intervention of the Korean state in industrial relations. Already emasculated by the American Military Government and its local collaborators who carried out campaigns to expel the leftists from the labour scene in the late 1940s, Korean workers were passive participants in the political process. Moreover, the very low level of economic development and the high rates of unemployment during the 1950s had them more concerned with economic subsistence. The Park

military government reorganised and provided it with “a *de facto* monopoly of representation protected by the Labour Union Law,” in return for the service for the new political and economic system.⁵⁶ The desire of the state elites, political elites as well as economic technocrats, was that the working labour would be an “active but docile partner” in the state’s fundamental project, the rapid growth of the Korean economy. This interest of the state elites became a fact through the state’s measure for consolidation of a union hierarchy within which various levels of labour unions were unified under a certain internal mechanism of discipline. Therefore, the Korean state was able to substantially restrict labour’s right to bargain collectively and to engage in collective activities while leaving labour’s right to organise untouched. This was accomplished through a barrage of labour law changes.

The prime device for controlling labour movements was the Federation of Korean Trade Unions(Hanguk Nochong:FKTU), which was at the top of the labour hierarchy, composing 17 industrial labour unions.⁵⁷ It was established after the coup of 1961 as an outgrowth of the Federation of Korean Trade Unions(Taehan Nochong) which had been founded as an anti-communist labour organisation in competition with leftist Chosun Labour Union(Chonpyong) right after liberation. Under the FKTU, each industrial union then hierarchically comprised regional unions that comprised company-based unions. This system of union hierarchy was installed to be advantageous to the Korean state, employers, and few co-opted labour union leaders. Both the state and the employers in this labour control system could share the burden of controlling labour by co-opting the labour unions at two different levels, national and company. Insofar as the Korean state could control the national-level industrial unions, therefore, labour disputes or strikes occurring in company unions could be easily contained at the respective company level. However, under this system, Korean workers were contained within a triple-layered system checked first by the respective company, second by the national level union and

⁵⁶ Moon-Kyu Park(1988), “Interest Representation in South Korea: The Limits of Corporatist Control,” Asian Survey, Vol. 28. No. 8. p. 911.

⁵⁷ The union members of FKTU were: Railroad, Textile, Mining, Electric, Foreign Organs, Communication, Transport, Maritime, Bank, Monopoly, Chemical, Metal, Dockers, Printing, Automobile, united, and Sightseeing. See, The Hapdong News Agency, Korea Annual 1980. p. 463.

ultimately by the Korean state. In general, the FKTU became an organisation which functioned in close relation with government labour offices. Because of the conservative ideology of both ruling and opposition political parties, on the one hand, and the government's tight control over any form of spontaneous organised labour movements, on the other hand, institutionalised political channels could not develop through which political demands of the working class could be transmitted.

Furthermore, under the 1971 Special Law Concerning the National Security and following revisions of the labour laws in 1973-74, the workers' rights of collective bargaining and strikes in all companies were virtually banned. The labour laws were once again revised in December 1980 under the Chun regime, which imposed even more stringent restrictions on the freedom of unions to organise. The Chun government was determined to put into effect as of 1st of January, a new labour law, called the Labour-Employer Council Law. Under this legislation, the conduct of labour-employer relations became the responsibility of the Labour-Employer Council, instead of using the labour union mechanism of the old system. Therefore, the FKTU and industrial labour unions now became ineffective. The underlying purpose of this legislation was to exclude outsiders or third parties from labour disputes and bargaining, so that only the government would partake in settling labour disputes between workers and their employers.⁵⁸ In addition, the adoption of this law changed the character of the labour union system in Korea from an individual labour union system to a business enterprise labour union system. The Chun government intended for these measures to weaken the power of labour unions and the labour movement, cutting off the unions from solidarity with outside supporting forces. The law also centralised the union chain of command to ensure effective control over union policy-making through the union leaders. After all, industrial workers were thoroughly excluded from the political process as well as from the socio-economic policy-making.

The labour movement was restored in December 1983 when it revitalized its trade union call for the discontinuation of the blacklisting workers who had been active in disputes in the late 1970s and the early 1980s. Against

⁵⁸ Young-Whan Kihl(1984), *Ibid.*, p. 89.

the state-sponsored formal trade union, FKTU, autonomous labour disputes had rapidly increased in 1984. As a major development, the Korean Workers' Welfare Council(KWWC) was established on 10th of March, 1984 by labour activists who had played leading roles in organising the autonomous unions, but who had lost their bases of activity through the repression of the government. The establishment of the KWWC was important because it tried to overcome the limitations of the labour unionism of the 1970s, which was dispersed among many isolated workshop units, and established a basis for unity and solidarity within the movement. Further, it provided the momentum for raising the level of Korean labour movement from an economic struggle to a political one because the KWWC has pursued a policy of uniting other democratic forces to call for the reform of the labour-related laws promulgated since late 1984. It prepared a petition urging revision of the labour-laws and submitted it to the National Assembly and held rallies in many locations. Throughout the labour movement in 1984 and 1986, the workers created independent frameworks within which they were able to turn their economic struggle into a political struggle.

Consequently, the interests of the working class, whether organised or not, were underrepresented in the political realm due to repressive policies and the lack of institutionalised political channels. No progressive political parties were established which could articulate the interests of the working class or poor peasants.

(3). The Federation of Korean Industries(FKI).

In Korea there are four nation-wide economic and business organisations: the Federation of Korean Industries(FKI, a group of big corporations: Jaebols), the Korean Chamber of Commerce and Industry(KCCI, the oldest and the largest group composed of a wide spectrum of businesses), the Korea Traders Association(KTA, an organisation of exporters, large and small), and the Central Federation of Medium and Small Industries Cooperatives(CFMSIC, a group of small firms). These economic organisations, especially the FKI, have had more influence on governmental policy-making than any other interest groups such as the consumer groups and labour unions in Korea.

The FKI formally represented the collective interests of the jaebols(loosely, big business) and it was the most powerful business association any others in Korea. Equipped with 10 research and consulting organisations, the FKI could embed the jaebols collective interests into the national development policies. According to the FKI's self-evaluation on the effectiveness of its policy suggestions, about 70 percent of them was reflected on the Korean state's national development policies during the 1970s.⁵⁹ In addition to the indirect way of influencing the state policies through policy suggestion to the Korean government, the FKI had a more direct way of channelling their collective opinions to the state. For example, the chairman of the FKI was considered to be the premier of Jaegye(jaebol community) and met the Prime Minister on a equal basis.⁶⁰ A chairman of the FKI could meet easily with the president and could meet all economic ministers in their offices or in the meeting over which they presided. No doubt, the FKI's continuous economic power concentration was possible under the auspices of the strong Korean state.

From the above, then, could the jaebols as a whole concentrate and expand their economy without wielding a substantial degree of political power *vis-a-vis* the Korean state? Although the FKI was modelled after the Japanese Federation of Economic Organisation(FEO) which is powerful enough to determine the political climate of Japan, the FKI was far less powerful than the political power. Using many interviews with governmental officials and entrepreneurs in Korea, Jones and Sakong elaborated on the relationship between government and business during the period of high economic development. In chapter three of their book, they asked an interesting question: "Is there a Korea,Inc. parallel to Japan,Inc.?" By 'Japan,Inc.,' they meant that in Japan the economic growth policies have been jointly decided and jointly executed by politicians and appointed officials together with representatives of private business.⁶¹ Their answer to the question seems sensible and instructive that:

⁵⁹ Byoung-Hyu Bae(1980), "The Reality on the FKI," Wolgan Chosun(Monthly Chosun), September. pp. 287-297.

⁶⁰ Ibid., p. 288.

⁶¹ Leroy P. Jones and Il Sakong(1980), Government, Business, and Entrepreneurship in Economic Development: The Korean Case, Cambridge, M.A.: Harvard University Press. p.66.

"There is a similarity between Japan and Korea, in the large part due to the common cultural heritage. There is, however, a decisive difference between the two countries. In Korea, the dominant partner is unequivocally the government, whereas, in Japan, the reverse may be closer to the truth...This reversal of dominance follows from differences in political structure. In Japan, the business community can dismiss most politicians by withholding support in an election. In Korea, the business community could dismiss Park only by shutting down operations and ruining themselves in the process. Conversely, the Korean government can ensure the failure of any businessman, should it care to do so....In Korea, state autonomy enhanced the state capacity to intervene in Korean society by highlighting the critical role played by the state's bank control."⁶²

They summarize that:

"in Korea the government is dependent upon the success of business, but not upon its political support. It therefore must listen to the business community and frame policies that are in the long-run best interests of entrepreneurs in general. At the same time, however, it is in a position to take actions that are inimical to certain short-run interests."⁶³

In other words, while the maintenance and the legitimacy of regime hinged on economic development(that is, on the success of business), the government should listen to the business community and frame economic policies that were in the best interests of business groups.

Due to the jaebols as a whole growing in terms of economic power, they could effectively transform their economic power to a 'political' leverage *vis-a-vis* the Korean state. Rather than being mere passive recipients of the Korean state's favour, the jaebols could actively put pressure on the Korean state to act in accordance with their collective interest by utilizing their collective economic power as a powerful leverage. During the 1970s and

⁶² *Ibid.*, pp. 67-69.

⁶³ *Ibid.*, pp. 68-69.

1980s, the unstable power relationship between the Korean state and the jaebols became more explicit. This is due to the collective interests of the jaebols being articulated and that is the appropriate place to look in order to examine the power relationship between the Korean state and the collective jaebols.

Now we turn next to an examination of the national development policy-making system and the national development policy-making process.

1.4.2. The National Development Policy-Making System in Korea.

The central planning system of the Korean government consists of the five-year economic development planning system and the (annual) planning and programming system. The former is concerned with integrating national multi-year development policies into a five-year economic development plan. The latter is concerned with coordinating all the policies of the executive agencies into an annual system of programmes which the government will carry out in the succeeding year. Both policy-making systems were established under the military government shortly after the 1961 military coup. However, they were introduced into the governmental bureaucracy on different bases.⁶⁴ The five-year economic development planning system was based on the value of rapid economic growth. However, the motive to introduce the planning and programming system was to demonstrate the expertise of the military bureaucracy, on the one hand, and to efficiently control and manage governmental performance, on the other hand. Such differences between the two planning systems have been reflected in the characteristics of the national development planning system of the Korean government.

⁶⁴ For a comparison of the two systems, see Suk-Choon Cho(1968), "A Comparative Analysis of Two Reforms Under the Military Regime in Korea," Korean Journal of Public Administration, Vol. 6. No. 2. pp. 95-120.

A. The Five-Year Economic Development Planning System.

The central organisation directly responsible for comprehensive development planning is the Economic Planning Board (EPB) which was formed immediately after the military coup led by president Park. The establishment of the EPB symbolised the military government's resolve to give top priority to economic development and its commitment to a systematic and sustained pursuit of long-term economic development plans.⁶⁵ For this purpose, the EPB has set up 27 sectoral task groups whose major task is to consider policy objectives and structural reforms and to prepare initial drafts of sectoral plans. Each task group conducts, in close cooperation with the KDI, a series of open forums to discuss and reach a broad public consensus on key sectoral issues. The work of this sectoral study group is coordinated through the Coordinating Committee on Economic Planning chaired by the Vice-Minister of the EPB. The final drafts prepared by the EPB are submitted to the Inter-ministerial Examination Council on Economic Planning which was chaired by the Prime Minister, the Economic and Scientific Council, and the State Council, before being finally adopted by the president.

Of the 27 sectoral task groups, three deal with health and social security problems. These include overall social development planning, social security, and health. The latter two groups are chaired by the Assistant Minister of the MOHSA.⁶⁶ While the MOHSA has jurisdictional responsibility for broad social security policy development in Korea, the EPB's tendency to cut into domains of other government agencies should enable conflict to take place jurisdictional conflicts over policy leadership. However, based on a secure political mandate and its superior capacities to collect and analyse economic wide information, the EPB is able to coordinate and control plans and policies of other government agencies in four ways.

First of all, the EPB is headed by the Deputy Prime Minister with hierarchical superiority over the heads of other ministries. The EPB

⁶⁵ Byung-Sun Choi (1991), "The Structure of the Economic Policy-Making Institution in Korea and the Strategic Role of the EPB," In Gerald E. Caiden and Bun-Woong Kim (Eds.), A Dragon's Progress: Developmental Administration in Korea, Connecticut: Kumarian Press. p. 96.

⁶⁶ Chong-Kee Park (1981), Planning and Coordination of Social Security Medical Care System with Public Health Programs, KDI Monograph No. 8102. pp. 17-18.

chairman is able to exercise direct leadership over the government agencies.

Secondly, the EPB is given the full responsibility for the formulation of five-year economic plans: from preparing the guidelines to filling in details within the guidelines. Through these guidelines, the EPB controls the executive agencies in their policy-making processes. All multi-year national development policies and plans of the agencies are filtered and coordinated by the EPB within the framework of a five-year economic development plan. Thirdly, through the annual budget review and examination, the EPB is able to control annual action programme, and to coordinate them within the framework of a five-year economic development plan.

Finally, the asymmetry in institutional mandates, resources, and capacities between the EPB and other ministries responsible for implementing policies has led these agencies increasingly to engage in mutual adjustment. Most importantly, the EPB has tried to strengthen its policy leadership and the nexus between its policy initiatives and other ministries' subsequent policy actions, by creating many formal policy coordination forums such as the Economic Ministers' Conference chaired by the Deputy Prime Minister.⁶⁷

Due to such organisational characteristics of the EPB, together with the strong political support of the president, the EPB has enjoyed since its beginning. The leaders of the EPB have been the most influential men next to the president within the executive branch.

B. The Planning and Programming System.

The Office of Planning and Coordinatation(hearafter the OPC) is the central organisation responsible for the planning and programming system. The OPC, directly attached to the Prime Minister, is chaired with the examination and coordination of the executive agencies' policies into a system of annual action programmes. Each executive agency has an Office of Planning and Management(hearafter the OPM). The OPM is located immediately below the Vice-Minister, and therefore is one level higher than other field bureaus. Policies of the agency are to be coordinated by its OPM.

⁶⁷ Byung-Sun Choi(1991), *Ibid.*, p. 98.

The OPC Director-General chairs the Committee of Planning Coordination, which is filled by the Deputy Director General and the five staff chiefs of the OPC, the OPM directors of the executive agencies, and the Secretary of Political Affairs to the Prime Minister.

Each year, during January, this Committee formulates the guidelines for the preparation of the executive agencies' annual action programmes for the succeeding year. In accordance with the guidelines, the OPM of each agency coordinates policies of the agency's field bureaus into a draft system of action programmes, and submits the draft to the OPC by 20th of March. However, most of the OPM's turn out to be ineffective for policy coordination. Formally, the location of the OPM in an executive agency is on a level higher than those of field bureaus, and the Director of the OPM is superior to the directors of the bureaus. But the bureau directors receive instructions directly from the Minister, Vice-Minister, and Deputy Vice-Ministers, and report directly to them. The major intra-ministerial policies are made among them. Therefore, the OPM director, whose primary function is coordination, rather than policy-making, is less influential than the directors of the field bureaus in the intra-ministerial policy-making process.⁶⁸

Between 21st and 25th of March, the OPC examines and coordinates the ministerial proposals into a draft system of the governmental annual programmes. By this time, the guidelines for annual budget estimates have been completed by the EPB, and approved by the State Council. The OPC's draft system of the governmental annual programmes is also submitted to the State Council usually after the Council has approved the guidelines for budget estimates. The system of annual programme is tentatively approved by the Council by 30th of April.

At this point, we will briefly examine the budgetary process in Korea. By 31st of March each year the Minister of the EPB sends the guiding principles for budget preparation to the heads of all ministries and agencies asking them to furnish ministerial estimates for the next fiscal year.⁶⁹ Upon receipt

⁶⁸ Bom Hu(1974), "A Social Information System for National Development Planning of a Developing Country: Korea," Unpublished Ph.D Thesis, State University of New York at Buffalo. p. 168.

⁶⁹ For the Korean budgetary process, see, Dong-Kun Kim(1985), "The Budget System and Structure in Korea," In Bun-Woong Kim et.al.,(Eds.), Administrative Dynamics and Development: The Korean

of the circular, the ministerial budget office send out to each bureau and field service within the ministry a memorandum asking them to sent bureau estimates, together with a letter indicating the broad policy framework laid down by the minister in connection with ministerial estimates. All the bureau estimates were then analysed and summaries were prepared by the ministerial budget officer for presentation to an informal committee, composed of the vice-Minister, bureau chiefs, coordinator for planning and management, and the ministerial budget officer. When they were approved by the committee and the minister, the ministerial budget officer began the task of preparing the estimates in the forms required for presentation to the Office of Budget in the EPB. Under the Budget and Accounting Law, all the ministries and agencies were required to submit estimates by 31st of May to the Minister of EPB.⁷⁰

The Bureau of Budget then begins reviewing and revising these estimates in consultation with the agencies involved. At the same time, the Office of Budget obtained preliminary revenue estimates from several sources. On the basic of this information, the Minister of EPB make up his mind as to the wisest course and then laid the situation before the president. The president after hearing his recommendations reached decisions on the tentative requirements. The decision reached by the president was communicated to the Office of Budget, which set budget ceilings for each of the ministries and agencies. On the basis of these ceilings and other standards set by the Office, the budget examiners began reviewing the ministerial estimates.

The revised estimates were summarised in the various ways for submission to the State Council and the president. When they were approved by the president, the budget was prepared in the form requested for presentation to the legislature. Submission of the budget bill to the National Assembly takes place no late than 2nd of October,⁷¹ and is followed by the policy speech of the president in the plenary session. The National Assembly deliberations must be completed thirty days before the fiscal year begins on 1st of January.

Experience, Seoul: Kyobo Publishing, Inc., pp. 156-169; and Hoon Yu(1981), "Preparation of the Budget in Korea," Korean Journal of Public Administration, Vol. XIX. No. 2. pp. 158-165.

⁷⁰ The Budget and Accounting Law, Para.2 Article 20.

⁷¹ The constitutions of 1972 and 1980 require the government to submit budget at least 90 days before the beginning of the fiscal year. See Article 89, constitution of 1972, and Article 90, constitution of 1980.

Since then, the tentatively approved system is used as the basis on which the executive agencies prepare their budget estimates, which are put again through examination and analysis under the EPB's. It is only after the National Assembly approves the executive budget proposal that the OPC adopts a final system of the governmental annual action programmes for the following year. From the preceding discussion, it becomes clear that, without the budget function, the planning and programming system is ineffective for the coordination of governmental policies.

1.5. Design of the Study.

In this study we have attempted to elucidate the policy-making for National Pensions in Korea. For this purpose, we have examined the major forces leading to the development of this type of social security programme. Policy-making process is so complicated that it can not be easily understood without having some theoretical knowledge.

In Chapter Two, therefore, we will outline a broad framework of the approaches and provide a preview of what is considered more specifically in the context of the pension policy-making. In order to ascertain how this kind of programme was adopted and what directed its evolution, the literature on social policy determinants will be deliberated. Yet several predominant themes and approaches can be located. In this analysis, four key approaches to the study of the pension development will be examined and evaluated. The four approaches are the socio-economic development approach; the pluralist approach; the authoritarian-corporatist approach; and the diffusion approach. Two criteria have been used in selecting these approaches. First, each of these interpretations has provided the framework for a rich and important body of literature in the field of social policy analysis. Secondly, all of these approaches have some potential ability to elucidate the development of the pension policy in the Korean case.

Following this, we turn to an assessment of the general utility and applicability of these to the analysis of Korean social security policy development. Chapter Three deals with the approaches to the analysis of Korean social security policy development prior to the establishment of the

National Welfare Pension(NWP) programme of 1973. This is because it has been expounded in chapter two that the social security policy development in the developing countries as a whole has appeared different from that in the developed ones. It means that in confronting social problems, the same solutions may not be applicable for every country, and their consequences may not be same for every country. Furthermore, social policy never exists in a vacuum. Before embarking on a detailed descriptive-construction of policy-making process, therefore, it is essential to have a brief outline of Korea's national characteristics and their impacts on the social security policy development.

The actual story of policy-making process will be considered from chapter four to chapter seven. In these chapters we will examine the formulation of the pension schemes, beginning with the description of the environments that the Korean government faced and ending with the final enactment of the pension programme during the period of 1973-1986. As we mentioned before, the policy-making process can be divided into five stages. In this study, however, we will lay stress on the first two stages: policy-initiation and policy-making. Throughout the policy-making process, we will aim at the following four issues. First, the issues to be examined throughout will be where and how policies are initiated, brought to the attention to government, propelled forward to the point of commitment, or blocked and quietly buried. Secondly, what is the time scale of government policy-making and what is the role of bureaucrats, relative to others, in affecting decision? Thirdly, the issues to be examined will be how and to what extent the interest groups influence the policy-making process? Finally, how key issues are managed. In other words, what actually happens to certain issues in terms of compromise and conciliation between different departments?

In Chapter Four, we will focus on the background of the National Welfare Pension scheme which has emerged as a political agenda. For this, we will discuss the social, political, economic and international environments that the Korean government was placed in at that time, and then in the chapter five, we will explore the policy-making process for the NWP scheme in 1973. In this chapter, we will examine how NWP programme was being considered and how some of the basic questions and conflicts about the nature of the policy were being resolved.

In Chapter Six, we will examine the development of the pension policy during the period of 1974-1985. We will focus on the postponement of the NWP programme in relation to the Korean national development strategies. Therefore, we will examine the major points of Korean political and socio-economic environments; these explain how the pension plan was postponed for such a long time. In the first section, we will examine the 'missing link' between policy-making and policy implementation, that is, the reasons why the pension scheme was postponed in 1974 even though its necessity had been affirmed. In the second section, we will scrutinize the government's social security policy during this period. Even though the NWP programme was still postponed, several social security programmes were enacted such as the Medical Insurance in 1977, the Welfare Law for the Aged in 1981, and the welfare Law of the Children in 1982. In this section, however, we will focus on the background of Medical Insurance scheme, and especially, why the need for Medical Insurance drew the Korean government's attention in 1976 instead of the NWP programme. In the third section, we will explore the development of the NWP scheme during this period of 1974-1985.

In Chapter Seven, we will scrutinize the process of Revised National Pension policy-making in 1986. In the second section, we will focus on the background of a re-emergence of pension policy as a political agenda. The tendency for the re-emergence of pension programme was a reflection of socio-economic environments and the support of political elites for this development strategy. In the third section, we then turn to a discussion of the policy-making process of revised pension programme between the president's announcement of 11th of August, 1986 and the enactment of Revised National Pension Act on 31th of December, 1986. The fourth, concluding section, provides a summary analysis of the major arguments and findings presented in the chapter.

In the concluding chapter, we will discuss briefly what we attempted in this study and the implications of our attempt with regard to the objectives of the study.

Chapter 2. Forces Shaping the Inception and Stratification of Social Security.

In this chapter, the major theoretical approaches to the development of social security policy are presented and analyzed. The real purpose of theory is to identify durable patterns of causal links over time and predict that certain events will occur under certain conditions. Social policy has failed to produce a substantive body of theory of this kind, relying instead on conceptual descriptions of different types of welfare systems.¹ In spite of this problem, theory plays a crucial role in the study of social policy for these reasons: "Theory is needed not only to conceptualise reality but to communicate ideas in ways that can be comprehended readily. Theory not only facilitates the task of social policy enquiry but is an essential element in the efforts of social policy investigators to comprehend the real world."²

Research into the factors responsible for the rapid expansion of social welfare provisions in the industrial countries has attracted widespread interest. Many social scientists have recognised that the growth of statutory welfare in these societies is a development of considerable historical significance which requires general explanation. Some of these theories are primarily historical, seeking to identify the social, economic and political factors that gave rise to the emergence of modern statutory institutions. Others are less concerned with the historical dimension, focusing instead on their contemporary role in modern society. However, this distinction can not always be sustained, since the historical and contemporary determinants identified by these theories are often interchangeable.³

As we mentioned already, social policy's theoretical development is still hampered by a parochial preoccupation with trends in the industrial countries. Although a number of interesting hypotheses have been formulated by social policy investigators, they have not been tested on a

¹ Piet Thoenes(1966), The Elite in the Welfare State, Translated by Brigham, J. E., London: Faber & Faber, p. 138 and Stewart MacPherson and James Midgley(1987), Comparative Social Policy and the Third World, Sussex: Wheatsheaf Books. p. 114.

² MacPherson and Midgley(1987), Ibid., p. 115.

³ MacPherson and Midgley (1987), Ibid., p. 123.

global scale.⁴ One example of this problem, as Jones⁵ observed are that references to industrialisation and welfare in the developing countries are noticeably absent from the theoretical writings on the subject. Even though some social scientists have employed theoretical constructs when reviewing the development of social policy in the Third World, most have done so superficially, referring to these theories ephemerally and uncritically. The main reason is that, as many researchers recognise, it is difficult enough to formulate valid propositions about welfare phenomena in one society--when a multiplicity of disparate political, social and economic settings are involved, the comprehension of this diversity and its encapsulation within a sustainable theoretical schema places severe cognitive demands on the investigator. The finding that Western social policy models and theories do not adequately explain Third World welfare phenomena or take account of the particular realities of Third World social policy has different implications for social policy research. There is ground for arguing that social needs and welfare responses in the developing countries differ from those of the industrial countries. The level of development, for example, has an important influence both on the nature of the problem and on the instruments available for its solution, so that the experience of countries such as Britain and Germany is far removed from that of developing countries. Social realities in the developing countries may be interpreted differently when viewed from different cultural and ideological viewpoints. The different development paradigms offer insights into the nature of social needs and social policies in developing societies and, at the same time, provide different normative perceptions for social planners. It can be also argued that a dependency on Western theory has weakened the originality of Third World scholars who might offer radically different interpretations of Third World realities if they were freed from the analytical predispositions of Western theory.

In spite of their differences, there is evidence to show that welfare provisions in different parts of the world do have common features. Therefore, we will consider whether a number of theoretical propositions formulated by Western social policy investigators to explain welfare phenomena in the industrial countries can be substantiated in the wider

⁴ MacPherson and Midgley(1987), *Ibid.*, p. 6.

⁵ Jones, H(1983), "Some Factors in Third World Social Policy," Journal of Social Policy and Administration, Vol. 17 No. 2. pp. 106-117.

empirical context of the Third World. For this purpose, we will study a number of key factors which are thought to have relevance for the emergence and functioning of statutory social programmes. Although more rigorous applications have been attempted, there are few studies of this kind, and at present there is no generally accepted theoretical view of the factors responsible for the rise of welfarism in the Third World. This is perhaps not surprising since the vast amount of historical and contemporary information collected about the social policies of the developing countries does not lend unequivocal support for any one explanation. Historical evidence can be produced to show that Third World governments have introduced modern social services for a great variety of reasons and that they serve an equally varied range of contemporary functions. In view of its complexity, therefore, it would be surprising if the emergence of social policy in the Third World could be reduced to any single determinant. Also, most accounts offer oversimplified interpretation of this very complex reality.

Based on the above understanding, therefore, first, we will examine the developmental approaches of western social policy, and then evaluate these approaches to the developing countries.

2.1. Brief History of the Development of Social Insurance Programme.

The modern state has become increasingly involved in regulating social interactions and distributing resources to its citizens. One of the most important functions which the state has come to perform is the provision of social welfare services for its populace. Instead of relying solely upon individuals to generate the resources necessary for their present and future well-being, or upon private charities to sustain those unable to make such provisions, a public, institutionalised responsibility for such provisions has been increasingly accepted. State-sponsored social security programmes have been a major component of this institutionalised response.

This trend occurred in the last two decades of the nineteenth century. The first social security legislation was inaugurated in Germany in 1883 with the establishment of a government programme to cover the cost of sickness and

maternity. A working-injury programme was adopted the following year and a pension programme was begun in 1889. The social insurance programmes begun in Germany were quickly imitated in Austria, Hungary, and the Scandinavian countries. In 1911, Britain adopted its first social insurance plan, and soon France, Italy, and the Netherlands followed. In 1921, Japan, which was an ardent admirer of German culture, became the first non-European nation to embrace the social security principle.⁶ Therefore, the first stage from Germany's pioneering institution of social insurance programmes in the 1880s through the First World War has been called the "classic introductory phase" of the welfare state,⁷ as various social security and income maintenance programmes were adopted in a wide range of industrialising capitalist nations in Europe. In all these nations, politicians, reformers, and trade union leaders grappled with the problem of how to deal with the risk of destitution faced by wage-earners in capitalist-industrial society due to interruption of income associated with unemployment, sickness, industrial accident, death of the breadwinner, and old age. In other words, social policy debates throughout the West in the late nineteenth and early twentieth centuries centred on whether to replace the poor law, and with what to replace it. The main alternative to the poor law was what was then called social insurance which, in common usage, implied non-contributory pensions as well as contributory benefit schemes. Social insurance was based on the idea that the state should operate a quasi-insurance system, exacting compulsory 'contributions' from the working population in order to finance the payment of benefits when certain contingencies occurred: notably unemployment, sickness, and old age.⁸ During this period four social insurance systems developed in relation to different risks: industrial accidents, sickness, old age, and unemployment. The introduction of each system represented a break with liberal ideas concerning the assignment of responsibility among individuals, groups, and the state. This break with liberalism lay above all in the principle of

⁶ Milton I. Roemer(1977), Comparative National Policies on Health Care, Marcel Dekker, Inc., pp. 36-42.

⁷ Peter Flora and Jens Alber(1981), "Modernization, Democratization, and the Development of Welfare States in Western Europe," In Peter Flora and Arnold J. Heidenheimer, The Development of Welfare States in Europe and America, New Brunswick: Transaction Books. p. 54.

⁸ John Creedy and Richard Disney(1985), Social Insurance in Transition: An Economic Analysis, Oxford: Clarendon Press. p. 1.

compulsory insurance as well as in the recognised amount of state financial responsibility.⁹

Among social insurance, old age pension and insurance systems represent an especially important component of the welfare state for several reasons. First, popular pressure for new state welfare activity commonly originated in demands for provision for the dependent aged outside the traditional poor law framework. Secondly, mass support for the new welfare programmes for the aged which were, at least initially, the most popular of the modern welfare and social insurance measures,¹⁰ often provided a crucial momentum towards other, less immediately popular programmes such as unemployment and health insurance. Finally, public provision of support for the elderly, either through pensions or insurance has come to be the largest single social undertaking of most national governments in the West, both in terms of the number of people involved and amount of money spent.¹¹

The interwar period was an important phase in the development of social insurance across the advanced capitalist democracies. During this period the social insurance model was generally accepted as a suitable method of protection for employees in industrial and related sectors. Countries that were more advanced in this respect began to gradually extend the model to cover all risks likely to jeopardize the worker's capacity to support himself and his family through work. In industrialising society the most underprivileged group, raising the most acute social problems, and posing the greatest potential threat for disruption was the industrial proletariat. Thus social insurance was usually intended, in principle, to protect the poorest of the industrial workers. Therefore, the nature of compulsory insurance remained limited throughout the interwar period with coverage generally confined to categories of workers with the smallest means.

From this period, the development of social security policy was divided into two groups: The German model and The British Model. The Bismarck

⁹ Flora and Alber, *Ibid.*, p. 51.

¹⁰ Bantley Gilbert(1966), The Evolution of National Insurance in Great Britain: The Origins of the Welfare State, London: Michael Joseph Ltd. p. 160.

¹¹ Hugh Heclo(1974), Modern Social Politics in Britain and Sweden, New Haven: Yale University Press. p. 13.

countries(e.g. Austria, Belgium, and Germany) developed pension schemes in which both contributions and benefits were closely tied to pre-retirement earnings. This type of programme structure tended to perpetuate even into old age the differences in income among individuals which existed during the working years. The second group of countries, primarily Britain and Scandinavia, began in the opposite way by providing national minimum benefits via a contribution of insurance and assistance schemes.¹² In either case, in the period before World War II, public pensions remained largely a form of social assistance for the indigent rather than a retirement wage for the elderly. It was only in the context of the post-war economic boom and under pressure from the labour movement that the welfare state emerged in a form that represented a radical break with the past. During the post-war period governments in all the advanced capitalist democracies began to assume increasing responsibility for distributing the national income. In all countries income transfers to the elderly constituted the major component in this development.¹³

The transition to social security in the post-war period was marked by the gradual implementation of two new principles of distribution--the principle of universality and the principle of substitutive benefits.¹⁴ The principle of universality was advocated in the Beveridge Report, which appeared during the war and had significant influence on post-war policy development. The principle of universality advocated by Beveridge was an important step forward in the transition from social assistance to social security. The goal of the Beveridge plan was to construct a social order based on equality of citizenship rather than on principle of class. The central idea was the concept of the national minimum benefits, whereby insurance would cover the entire population and all residents would be guaranteed a minimum for subsistence, independent of duration of contributions or previous earnings levels. Thus social security benefits were to be egalitarian in that all recipients were to be treated alike and provided with the same level of benefits regardless of past earnings or contributions. The principle of universality was also applied, in a more restricted manner, in the Bismarck countries as traditional social insurance programmes were gradually

¹² Ian Gough(1979), The Political Economy of the Welfare State, London: Macmillan. p. 57.

¹³ John F. Myles(1984), Old Age in the Welfare State, Boston: Little, Brown and Company. p. 17.

¹⁴ Ibid., p. 5.



consolidated and modernised in stages, by extending coverage to all employed persons and their dependents, and finally by setting up similar, but separate schemes for the self-employed.

The first systematic articulation of the substitutive principle appears in a recommendation passed by the International Labour Office in 1944. It states that "real security for the worker requires benefits related to former earnings at a level that allows the worker and his family to maintain their traditional standard of living."¹⁵ In Beveridge countries like Britain and Sweden the substitutive principle was achieved through the addition of a second tier of earnings-related benefits to basic flat-rate benefits. Thus the implementation of a system of substitutive benefits required the addition of a graduated structure mirroring the wage inequalities of the market. This required the abandonment of the seemingly egalitarian ethos implicit in the flat-rate Beveridge system.¹⁶ In the Bismarck countries the principle of substitutive benefits was achieved by increasing entitlements at all income levels and raising the ceiling on covered earnings. Thus there has been considerable convergence in the post-war period as all the advanced capitalist democracies have gradually developed pension systems which reflect a combination of the principles of the early Bismarck programmes and the later Beveridge Plan.

Most semi-industrialization countries and the underdeveloped nations, on the other hand, established a social insurance system quite recently, but there have been a few notable exceptions. Chile, in 1924, was the first relatively poor nation to enact social insurance legislation for its industrial worker. Uruguay and Brazil soon followed and by the Second World War, over half of Latin America had implemented social insurance programmes.¹⁷

The Asian and Middle Eastern countries adopted various social security programmes just recently from the mid-1930s to 1960s. One of the main reasons is that most of the Asian nations have been preoccupied with economic development as the prime instrument of alleviating changes in the

¹⁵ Guy Perrin(1969), "Reflections on Fifty Years of Social Security," International Labour Review, Vol. 99, No. 3. p. 270.

¹⁶ Myles, Ibid., p. 10.

¹⁷ See, John Dixon and Robert Scheurell(Eds.) (1990), Social Welfare in Latin America, London: Routledge.

past three decades or so. The other reason is that the Eastern Asian culture which emphasizes familial relationships, hierarchical social structure, and Confucian political philosophy characterized by personalism, hierarchical subordination and centralized elite tradition, have spawned quite different concepts about what the natures of man and society are, and what the scope of responsibility of government for people's well-being. In these environments, even though many scholars in Asian countries have started debating the importance of social development for human welfare, these countries still choose to maximise economic development, under the old assumption that this improves the quality of life, and they thereby enshrine Gross National Product(GNP) as the supreme goal of the national development.¹⁸ It is well-known fact that Japan, one of the most industrialized market countries, began its social welfare programmes later and funded them at much lower levels than most other industrialized countries.¹⁹ Similarly despite the fact that Taiwan and Korea are one of the most rapidly growing industrial countries in the world, their social welfare systems remain rather backward and underdeveloped. However, the absence of public provision of welfare services for those in need does not mean that they receive no care. As we will see in the Chapter Three, traditional East Asian values lead people to care for their elderly parents, disabled family members, or poor relatives. In these countries, much care for the needy is still concentrated within the private sector of the family and community.

The last wave of social security development began after 1960 in the African nations that had recently received their independence.

In this scenario of the development of social security policy which is based on the above examination, several questions arise in relation to the development of social security policy.

First, why the autocratic German government established the first social insurance system instead of the more liberalised industrial society such as Britain and France? In other words, do the governing ideology and governmental structure have an influence on the development of social

¹⁸ Hyung-Shik Kim(1985), "Social Welfare and the Development Process," In John Dixon and Hyung-Shik Kim(Eds.), Social Welfare in Asia, New Hampshire: Croom Helm. pp. 1-2.

¹⁹ See, T.J. Pemple(1982), Policy and Politics in Japan: Creative Conservatism, Philadelphia: Temple University Press, Esp. Cp. 4.

security policy?, or is it easier for the authoritarian government to initiate the social security policy than the liberal and democratic government?

Secondly, social policy debates throughout the West in the late nineteenth and early twentieth centuries centred on whether to replace the poor law, and with what to replace it. Then, why did most industrialised countries choose social insurance programmes as an income maintenance scheme, rather than other policies?

Thirdly, social security programmes are so universal among nations that the programmes have been found to form a Guttman scale.²⁰ That is, the initiation of one type of programme generally precedes that of the next across nations that have any social security establishment of consequence. So how has the notion of diffusion been received by the Third World countries and how is it employed in the context of their social security policy development?

Fourthly, in relation to the third question, why then do different countries rely, to differing extents, on income maintenance programmes versus benefits in kind; on insurance, assistance or universal benefits; on direct state provision versus state regulation of third-party provision; and so on ?²¹

All of the 142 countries analysed by the U.S. Social Security Administration contain working injury components, and most(132 countries) provide old age, disability, and survivors pensions. However, 83 countries contain sickness and maternity programmes and only 64 countries provide some family allowance and assistance services. Unemployment programmes are the least developed components of these systems, with only 40 countries containing provisions for this eventuality.²² Obviously, the quality of these protections varies also with some systems providing virtual replacement of lost income and others providing only a partial substitute. Mechanisms for the organisation and administration of these programmes also vary. Perhaps the most important difference in these programmes concerns the extent of coverage which they provide. Therefore, this study attempts to show how unique national characteristics have affected the emergence and current form of the social security scheme. The study further

²⁰ Phillips Cutright(1965), "Political Structure, Economic Development, and National Social Security Programmes," American Journal of Sociology, Vol. 70. p. 540.

²¹ Gough(1979), Ibid., p. 58.

²² US Department of Health and Human Service(1986), Social Security Programs Throughout the World, 1985.p. xxiii.

seeks to anticipate how these national characteristics might interact either positively or negatively with approaches to social security policy.

Fifthly, what factors affect the social security policy development which play particularly important roles in policy making process? Many factors will be involved in the policy making process: the president, congress, the courts, the mass media, interest groups, bureaucrats, researchers, and political parties etc. In my opinion, these factors will be different from country to country. Therefore, no single model of policy making is universally valid for all countries. One of the question of the present study is: can Western democratic-pluralism be a viable social security policy model for Third World bureaucracy?

Sixthly, do these Western social insurance programmes contribute to financial protection against the inevitable problems of the old age, illness, and death? This question is very important to the development of social security policy in the Third World countries. This is because social insurance can be regarded as the ultimate determinant of distribution patterns only in the formal sense that it has established the legal framework within which social, economic and political factors interact. However, many social scientists are convinced that these social security programmes have done little to contribute financial protection against the social contingencies. For example, the benefits of social security programmes overwhelmingly favour the middle class, rather than the working class.²³ A possible explanation is that they have effected downward redistribution which has been offset in other ways. If the principle effect of policies apparently designed specifically for downward redistribution has been merely to reshuffle income among lower income groups, then an understanding of why this is so should increase understanding of why social policy generally has not affected overall distribution significantly. It is proposed here that a study of political processes relevant to such policy design will contribute to that understanding. This study, therefore, proposes to deal with social insurance policies for the aged in Korea.

The final question is whether the patterns and priorities in the provision of these welfare services of the developed countries are imitated in the Third World countries. Rimlinger points out that:

²³ Frances Woolley and Julian Le Grand(1990), "The Ackroyds, the Osbornes and the Welfare State: The Impact of the Welfare State on the Two Hypothetical Families Over Their Life-Times," Policy and Politics, Vol. 18 No. 1 pp. 17-30.

"The developing countries are in a special situation. They can borrow from a wide range of pattern of social protection that have proved successful in countries that industrialised earlier.their problem is one of choosing the most suitable pattern."²⁴

As a whole, all these questions should be converged into four theoretical approaches: the socio-economic development approach, the pluralist approach, the authoritarian-corporatist approach, and the diffusion approach. In this chapter, therefore, we will examine and evaluate these four theoretical approaches to the study of social security policy development. We hope that each of these interpretations has provided the framework for a rich and important body of literature in the field of social policy analysis, and that all of these approaches have some potential ability to elucidate the development of social security policy in the Korean case as well. Each interpretation, therefore, has, at the outset, a certain plausibility in terms of the case under consideration. These four approaches are not mutually exclusive and do not by any means exhaust possible explanations for the growth of modern social policy. Moreover, all four factors may be mixed, and conceivably the mixture will vary both with different policies and with different stages of the same policies. Each does, however, set out what has been a major line of inquiry, and the importance of each is not intuitively obvious. Since social science findings tend to sound self-evident in retrospect, it is as well to begin by noting that all of these interpretations are plausible but difficult to integrate with each other.

The remainder of this chapter is, therefore, divided into four sections and each of these approaches is analysed in turn. Each section opens with a brief statement of the major principles and links involved in one of the approaches. Following that, a review is made of the literature in which that perspective is developed and elaborated. The general literature interpretation is reviewed first, and then studies applying that approach to the Korean case are discussed. A critique of the general approach and the literature which employs it then follows. Each of these interpretations is assessed in terms of its clarity, theoretical soundness, general utility, and applicability to the case. No attempt is made to select the single correct

²⁴ Gaston V. Rimlinger(1971), Welfare Policy and Industrialization in Europe, America and Russia, London: John Wiley and Sons, Inc., p. 334.

theory of social security policy development from among these four approaches. Even in a single case, the richness and complexity of political realities preclude rigid adherence to a single conceptual approach. Instead, the attempt is made to analyse the interplay of forces leading to the development of the policy and the phases in which different interpretive patterns gain and lose explanatory power.

2.2. The Socio-Economic Development Approach.

Perhaps the most prominent interpretation of the social security policy development is provided by the socio-economic development approach. According to this interpretation, the level of a nation's socio-economic development and its national development strategies are the primary determinants of its level of social security policy development.

2.2.1. A Theoretical Approach.

This realm of welfare studies gained its significant position in the 1960's and 1970's as a result of the impetus brought out by sociological functionalism and economic growth theory. On the basis of the functionalist approach to social welfare studies, the main components of socio-economic determinism are that the development process of social security programmes is a natural outcome of the 'logic of industrialism' and change in economic structure, and that ideology is irrelevant to the development of social welfare services, in addition to the proposition that the convergence of social security development takes place along with economic development. The 'logic of industrialism' predicates that the welfare state is a common phenomenon of all capitalist societies.

The causal relationship between capitalist societies and the rise of welfare state lies in the assumption that change in socio-economic structure generates needs for social security programmes. This interpretation assumes that statutory social security programmes emerge in response to the social problems created by industrialisation and the disintegration of traditional forms of support.

Economic development means industrialisation and urbanisation, changes in structure and methods of production and migration from the rural areas to the city.²⁵ Those changes were seen to be accompanied by conflict, anxiety, growing distance between generations, identity problems and, in some instance, anti-social behaviour. In particular, a number of these factors were seen to be important here.

At first, these changes broke down the traditional family system. The family has for centuries been the primary institution through which the basic needs of individuals have been met. A family unit was also provided for those who could not participate fully in its efforts to produce enough for substance and exchange; in this way, those who were economically active supported the young, elderly, handicapped and sick whose productive capacities were limited or impaired. However, these changes caused the number of separated families to grow considerably, especially owing to migration. Another indication of family breakdown was the increasing evidence of neglected elderly persons.

The second was that the consequence of increased reliance on the isolated wage-earner was an increased vulnerability to interruption in those wages, particularly through unemployment or old age. In addition to a cumulative income vulnerability, modern economic growth involved a sustained course of essentially cyclical fluctuations.

Therefore, some form of compensation was imperative and in developing countries, as was the case in the now developed countries, social security measures have been introduced to meet these problems of insecurity and to give protection against the risks which impair or destroy the income of the individual and his ability to support his family. This is not to suggest, however, that the substantive policies discussed here have been simply automatic by-products of socio-economic development. Aggregate relationships between economic level and social security programmes are far from simple, and the international diffusion of new programmes has not followed the straight path signposted by socio-economic development.²⁶ A second reason for rejecting any one-to-one correlation between socio-

²⁵ Christine Cockburn(1980), "The Role of Social Security in Development," International Social Security Review, Vol. 33 No. 3-4. p. 343.

²⁶ Hugh Heclo(1974), Modern Social Policies in Britain and Sweden, New Haven: Yale University Press. p. 287.

economic development and social policy is that the former has been largely determinate for substantive policy contents. In this account, we only infer that socio-economic changes rather than political choice or ideological preferences create the conditions for the emergence of modern social security programmes.

The foregoing hypotheses have been substantiated by several comparative studies on social welfare, but have been rejected by others, too. The theses put forth by Cutright, Aaron, Wilensky, Jackman, and Collier and Messick, etc., belong to the former group, while Dryor, and Taira and Kilby belong to the latter group, which will be individually reviewed in the rest of this section.

In the first instance, Cutright has focused on the relationships between political structures, economic development and social security programmes.²⁷ Developing an index of socio-economic development from data on energy consumption, urbanisation, and literacy, and an index of social security development from the number of years a country has had any of the five social security programmes in existence, Cutright then found that the economic level is the main determinant of the number of years of social insurance programme experience. The degree of social security coverage of a nations' population is most powerfully correlated with its level of economic development, but when economic development is controlled, the more representative governments introduce programmes earlier than the less representative governments. Thus, he concluded that national political, economic, and social systems are interdependent.

Aaron uses some economic indicators such as per capita national income, per capita social security expenditures, and social security expenditures as a percentage of national income, to test the relationship between the level of economic growth and the growth of social security schemes in his comparative study of social security in twenty-two countries which spend five percent or more of their GNP on social security. He then found that the level

²⁷ Phillips Cutright(1965), "Political Structure, Economic Development and Social Security Programs," American Journal of Sociology, Vol. 70. pp. 537-550. For an interesting critique of this essay, see Vladimir Rys(1966), "Comparative Studies of Social Security: Problems and Perspectives," International Social Security Review, Vol. 19. pp. 242-268.

of economic development was the most important determinant of per capita social security outlays. In providing an explanation of the percent of national income spent on social security, however, economic variables were not useful.²⁸ He also found that the age of the social security system was one of the significant factors in determining its future development. Countries with older social security programmes spent more on these schemes and continue to expand their coverage and improve the level and types of benefits paid than countries which had introduced social security more recently. Aaron also examined the relevance of political factors in the development of social security and concluded that 'moderate leftist governments which come to power on the promise of social reform take the first steps.'²⁹

In his study of sixty-four countries, Wilensky has criticized Aaron and findings of others that the countries which they used were roughly comparable in terms of their levels of economic development. Because of the relative homogeneity of the samples, measures of the impact of economic developments on social security expenditures had been 'excessively reduced.'³⁰ When comparing a full range of nation states, he argued, the validity of the economic interpretation could, supposedly, be redistributed. He found that the level of economic growth, defined in per capita GNP terms, is the key predictor of social security spending as a percent of GNP.³¹

The findings of others such as Jackman,³² Collier and Messick,³³ and Boye³⁴ also parallel those of Wilensky. In particular, a study by Collier and

²⁸ Henry Aaron(1967), "Social Security: International Comparison," In Otto Eckstein(ed.), Studies in the Economic of Income Maintenance, Washington D.C.: The Brookings Institution. p. 23.

²⁹ Aaron(1967), Ibid., p.17.

³⁰ Harold Wilensky(1975), The Welfare State and Equality, Bekerly: University of California Press. p. 18.

³¹ Ibid., pp. 15-18.

³²Robert W. Jackman(1974), "Political Democracy and Social Security: A Comparative Analysis," American Sociological Review, Vol. 39. pp. 29-45.

³³ David Collier and Rechard E. Messick(1975), "Prerequisites Versus Diffusion: Testing Alternative Explanations of Social Security Adoption." American Political Science Review, Vol. 69. pp. 1299-1315.

³⁴ Boye, S(1977), "The Cost of Social Security, 1960-71: Some National Economic Aspects," International Labour Review, Vol. 115 No. 3. p. 308.

Messick contains a variant of the socio-economic development hypothesis. In their article on the developments of the timing of social security adoption, these analysts include an examination of the socio-economic 'prerequisites' of the formation of the social security programme. Using data on the socio-economic conditions that existed at the time of social security adoption in fifty-nine heterogeneous nations, they concluded that certain minimal levels of socio-economic development must be obtained in order that a country be able to initiate a social security programme.

In his comparative study of welfare policy and economic development between a few industrial countries, Rimlinger³⁵ argues that economic aspects of labour productivity or manpower have contributed subsequently to the steady expansion of health and welfare programmes, which can be seen in all industrialised countries. For Rimlinger, social welfare system is taken as a measure to educate and ensure the healthy condition of manpower for the need of economic growth.

The works of Singer³⁶ and Gilbert³⁷ argued that social security schemes are not likely to develop in countries below a certain level of economic development. Although Gilbert pointed out that this level was very difficult to define, Singer suggested that it is only when a developing country attains a degree of economic modernization comparable to that reached by Honduras, Burma, or Gabon that its social security services are likely to expand.

Cockburn also offered a similar interpretation, arguing that it is this very process of development which weakens traditional forms of protection and creates the need for social security.³⁸

³⁵ Gaston V. Rimlinger(1966), "Welfare Policy and Economic Development: A Comparative Historical Perspective," Jpurnal of Economic History, Vol. XXVI No. 4. pp. 556-571.

³⁶ Singer, H.W.(1968), "Social Factors in Development: an Overview with Special Emphasis on Social Security," In Everett M. Kassalow (Ed.), The Role of Social Security in Economic Development, Washington: U.S. Department of Health, Education, and Welfare. pp. 21-38.

³⁷ Gilbert, N.(1981), "Social Security in Developing Countries," In Wallace, H.M. and Brabin G.(eds.), Maternal and Child Health Around the World, London: Macmillan. pp. 292-297.

³⁸ Cockburn C.(1980), "The Role of Social Security in Development," International Social Security Review, Vol. 33. pp. 337-358.

On the other hand, some analysts such as Pryor, and Taira and Kilby suggested different findings. Pryor's study of seven 'communist' and seven 'capitalist' countries also challenged the simplicity of the economic development hypothesis and indicated that the relationship between economic development and welfare and health expenditures was ambiguous. While, with minor modifications this basic relationships held for his time-series analysis, there was no relationship between his economic development indicators and the level of expenditures adopted by a cross section of his universe.³⁹

In their study of nineteen developed countries of the West or of Western origin, Taira and Kilby also found that the economic approach to social security expenditures was not very useful. Their correlations between GNP per capita and social security spending were both weak and negative.⁴⁰ While they found that economic variables were more closely correlated with social security spending in some years than in others, there was no consistent pattern to this relationship, and these correlations never possessed significant explanatory power.

In sum, the above conclusions derived from cross-national studies among various countries at certain points in time indicated that the socio-economic level is an important determinant in the early stage of welfare development. In general terms, the wealth of a nation, as Liechter explained,⁴¹ determines the degree of freedom or the constraints imposed on a nation's decision makers in providing public goods and services. A nation's economic base influences not only the content of public policy but also its administration. In other words, both the policy agenda and the administration of public policy are influenced by the nature of a society's economic base.

³⁹ Frederick L. Pryor(1968), Public Expenditures in Communist and Capitalist Nations, Homewood Illinois: Richard D. Irwin Inc. pp. 146-150.

⁴⁰ Koji Taira and Peter Kilby(1969), "Differences in Social Security Development in Selected Countries," International Social Security Review, Vol. 22. pp. 145-150.

⁴¹ Howard H. Leichter(1979), A Comparative Approach to Policy Analysis: Health Care Policy in Four Nations, Clmbridge. pp. 51-53.

2.2.2. Evaluation.

The basic approach taken in this study is that the socio-economic interpretation of social security policy development provides a useful and potentially fruitful approach to the problem. Yet this interpretation suffers from several important limitations.

The first problem which characterizes the literature employing this perspective concerns its relatively monolithic relationship between social security programmes and socio-economic development, and upon a simple form of functionalism. Not only does it neglect many unquantifiable variables such as culture, or historical values, but it also tends to downplay the political dynamics involved in the policy process. Regardless of the strength of the correlations or predictive ability, social policy could be a mere concomitant or artifact of socio-economic development. Public policy and social programmes are the results of real human interactions and decisions in the political arena. Even though some of the analysts, such as Wilensky, Cutright and Jackman, discussed above do make some attempt to address this problem, their attempts are only very general. Therefore, linkages between socio-economic developments and changing class structures, stratification, bureaucratic activities and the options and constraints placed upon a political elite must be explored.

The second problem is that the findings of these researches predicted that industrialised countries as a group would have more advanced social security programmes than the countries of the Third World. If this simply meant that the greater affluence of the more industrialised countries enabled them to make better social provision, it would not be a very striking discovery. Looked at from this perspective, economic growth could be regarded as the instrument and better living standards as the objective.

In reality, however, the controversial issue of deciding which social security measures are to be adopted, is whether the institution of social security itself is to be used consciously for the purpose of economic development.⁴² Mishra argued that: 'welfare provision actually facilitates economic

⁴² Walter Galeson(1968), "Social Security and Economic Development: A Wuantitative Approach," Industrial and Labour Relations Review, Vol. 21. No. 4. pp. 559-569.

development.⁴³ and the United Nations report also mentioned that: 'social development accelerates economic growth, accelerated economic growth provides for further development, and this in turn fulfils preconditions for new economic growth.'⁴⁴ On this question, one point of view is forcibly expressed thus: "It is somewhat ironical to suggest that social security, which is an instrument of 'social justice', be used as an excuse for commandeering society's resources for economic development which itself is invariably responsible for producing social dislocations and social injustices necessitating in turn protection of individuals against socioeconomic hazards through means like social security."⁴⁵ According to this view, social security programmes may be used as a policy instrument, primarily, for the means of investing in human capital, but it also serve as an important tool in the mobilising domestic capital. Better health and nutrition mean a more vigorous people; and education gives them the knowledge and skills they need in order to achieve growth. There is also understanding and vision.⁴⁶ Investment in human capital may prove to be even more profitable than that in more tangible assets. It must be seen, of course, as a long-term policy, needing time to produce its effects.

References have already been made to the potential of insurance and provident schemes for the mobilisation of capital which can then be used for development.⁴⁷ This is well recognised as having occurred in Singapore, where the public housing programme has been largely financed from the National Provident Fund.⁴⁸ But, in this approach, there was a danger of

⁴³Ramesh Mishra(1976), "Convergence Theory and Social Change: The Development of Welfare in Britain and Soviet Union," Comparative Studies in Sociology and History, Vol. 8. p. 31.

⁴⁴ UN Research Institute for Social Development(1965), Aspects of Social and Economic Growth, p. 46.

⁴⁵ Taira, T.(1974), "Social Security and National Economy," In Report on the ILO/NORAD Asian Regional Seminar on Social Security, National Economy and Planning, Philippines, p. 112. Quoted from Christine Cockburn(1980), Ibid., pp. 353-354.

⁴⁶ Jones(1980), Ibid., p. 7.

⁴⁷ Mouton, P (1975), Social Security in Africa, Geneva: International Labour Office. p. 47.; Partasarati, S. (1978), "Social Security as a Mobiliser of Savings: the Experience of Malaysia," International Social Security Review, Vol. 19. p. 47.; Shome, P and Saito, K. A.(1980), "Creating Capital through Social Security Institution: The Asian Experience," Studies in Domestic Finance, Vol. 61. World Bank. p. 1.; Dean R. Leimer and Selig D. Lesnoy(1982), "Social Security and Private Savings: New Time-Series Evidence," Journal of Political Economy, Vol. 90. pp. 606-629.; and Haward Jones(1990), Social Welfare in Third World Development, MacMillan Education LTD. p. 7, 47.

⁴⁸ Jones(1990), Ibid., p. 47.

confusing means and ends, for improvements in the quality of living were important objectives in themselves and were not to be seen as merely aids to higher economic output.

In relation to the development of Third World social security programmes, the last problem is that this interpretation overemphasised the resource constraints. Scepticism regarding the feasibility of large-scale public provisioning in a poor country often arises precisely from the belief that these measures are inordinately 'expensive.' But it would be a mistake to regard these constraints as the most important obstacle to be overcome in attempts to provide social security through direct public support in developing countries. The following two examples produce contrary evidences. The first example is that some developing countries such as China, Sri Lanka, and Kerala have succeeded in social development in spite of a low GNP per capita. These countries suggest that the scepticism regarding the feasibility of large-scale public provisioning in a poor country is, at least to some extent, misleading.⁴⁹

On the other hand, Korea, as is widely known, has experienced outstandingly high rates of economic growth between 1960s and 1980s. however, the extent of government involvement in income redistribution and social security programmes has been, until recently, rather small by international standards. To take one example, before 1988, Korea had no national insurance system worth the name, and no form of broad-base medical assistance or medical insurance scheme until 1977. Also, the Korean government has consistently rejected the option of developing into welfare state. Nor has it expressed much direct concern about income redistribution.

It is perhaps not without reason, then, that Korea has been variously seen as an archetype of the fecundity of capitalism, a 'free enterprise model' for other developing countries, an illustration of the redundancy of planning, and, generally, a brilliant product of what some have called the 'market order.'⁵⁰ Therefore, it is impossible to understand these two examples

⁴⁹ Jean Dreze and Amartya Sen(1991), "Public Action for Social Security: Foundations and Strategy," In Ehtisham Ahmad et.al.,(Eds), Social Security in Developing Countries, Oxford: Clarendon Press. p. 27.

⁵⁰ Jean Dreze and Amertya Sen(1989), Hunger and Public Action, Oxford: Clarendon Press. p. 195.

without reference to the major role of government policy in planning the nature of economic growth and adjusting towards economic equilibrium. In fact, close examination of the requirements for growth and for an effective social policy makes it clear that government intervention is unavoidable, and that it calls for planning in which these two aspects are closely integrated. Given the distinct, it is possible in principle to distinguish two contrasting strategies: growth-mediated security and support-led security.⁵¹ The former strategy is to promote economic growth and take the best possible advantage of the potentials released by greater general affluence, including not only an exception of private incomes but also an improved basis for public support. The latter strategy, on the other hand, is to resort directly to wide-ranging public support in domains such as employment provision, income redistribution, health care, education, and social assistance in order to remove destitution without waiting for a transformation in the level of general affluence. Here success may have to be based on a discriminating use of national resources, the efficiency of public services, and a redistributive bias in their delivery. Even though the possibility of success through either approach is credible enough in principle, there are serious questions about the viability of each of these strategies. Therefore, their real success seems to be based on creating the political, social, and economic conditions under which ambitious programmes are undertaken with determination and effectiveness, and can be orientated towards the deprived sections of the population.

In conclusion, the socio-economic interpretation of social security policy development provides a useful and potentially fruitful approach to the problem. However, this interpretation has gradually lost its ground in comparative social security studies, and has been replaced by a new perspective which analyses social security development as a process of political choice on the one hand,⁵² and as a constellation of economic, political, and social factors on the other⁵³; both will be dealt with in the next sections.

⁵¹ Dreze and Sen(1989), Ibid., pp. 183-202, and Dreze and Sen(1991), Ibid., pp. 22-28.

⁵² Joan Higgins(1981), States of Welfare: A Comparative Analysis. Oxford: Basil Blackwell. p. 161.

⁵³ Eric Butterworth(1975), Social Welfare in Modern Britain, London: Fantana/Collins. p. 15.

2.3. The Pluralist Approach.

The second interpretation of the determinate of social security policy development is the pluralist or pressure group politics approach. This approach is the first of two which emphasize the role of key political actors in the internal political arena.

The most simplistic form of this approach is that:

"pluralism seeks to explain government activity in terms of the pressures emanating from the political system. Its distinctive characteristic is its stress on the formation of pressure groups and the manner in which policies are formed as the outcome of a lobbying process."⁵⁴

Political inputs, in the form of group demands and supports, are seen as competing within an essentially neutral policy-making form, and resulting in the public policy outputs desired by the majority group.

2.3.1. A Theoretical Approach.

Social theorists proposing a pluralist model emphasize a democratic process wherein all interests are represented in policy debates, with accommodation and compromise occurring over final outcomes. Pluralism focuses on groups' abilities to organize and coalesce around issues that interest or directly involve them. Dahl would argue that in any democratic political process, almost every interested group has access to some political resources, even though he would not argue that all groups have equal access to resources.⁵⁵ With regard to power differences in the political process, pluralists argue that there is no single set of all-powerful leaders who fully argue on their major goals, or who have enough power to achieve their goals. Policy-making requires a coalition of different sets of leaders who may have divergent goals. Further, pluralist view the state as primarily a neutral arbiter in the debates over legislation. Dahl, utilizing a pluralist

⁵⁴ Peter Taylor-Gooby and Jennifer Dale(1981), Social Theory and Social Welfare, London: Edward Arnold. p. 179.

⁵⁵ Robert Dahl(1967), Pluralist Democracy in the United States: Conflict and Consent, Chicago: Rand McNally & Co., p. 24.

framework, also argues that it is easy to exaggerate the importance of pressure groups which are inhibited from united action by the diversity of the views and interests among their members.⁵⁶ According to pluralist, therefore, outcomes have generally been accepted by all involved, which is one of the main strengths of democracy. The fact that the pluralists study how legislation is hammered out is an important point. Emphasis on the process and stages helps us to understand long-term dynamics.

There are several key notions in the pluralist perspective. For one thing, pluralism is a means of coming to terms with the fact that the democratic ideal has been only imperfectly realised in capitalist societies. Whether due to the complexities of industrial civilisation itself or to the economic injustices of capitalism, pluralist (1). aim accurately to describe the workings of imperfect democracy and (2). have tended to praise the political sphere in capitalist societies as securing at best some valuable elements of democracy in an imperfect world.⁵⁷ Western society, for another thing, is not made up of homogeneous citizens. Rather, we have a number of interest groups, coming together voluntarily or organisational in order to assert their social identity and political demands.

This approach to policy determinance is particularly appropriate to the analysis of social security policy development. As Eckstein points out, the direct, personal costs and benefits of social policy programmes are highly visible to broad social groups and prompt them to press for enactment or modification.⁵⁸

Several analysts have been particularly enamoured of this approach.

In his statistical study of public expenditures in seven 'capitalist' and seven 'communist' nations, Pryor speculates that variations in the level of pressure group activity may ultimately be at the root of the differences in expenditures on health and welfare programmes.⁵⁹ Sanders' study of social insurance development in the United States focuses on the role of certain interest

⁵⁶ Dahl(1967), Ibid., pp. 414-415.

⁵⁷ Gregor McLennan(1987), "Capitalist State or Democratic Polity? Recent Developments in Marxist and Pluralist Theory," In Gregor McLennan, et al.,(Eds.), The Idea of the Modern State, Milton Keynes: Open University Press. pp. 81-82.

⁵⁸ Harry Eckstein(1963), "Group Theory and the Comparative Study of Pressure Groups," In Harry Eckstein and David E. Apter(Eds.), Comparative Politics, New York: The Free Press. p. 395.

⁵⁹ Pryor(1968), Ibid., pp. 172-173.

groups and organizations in securing the adoption and subsequent modifications of the American social security system.⁶⁰ The importance of this approach has also been recognised by several analysts of the subject in Latin America. Perhaps the most forceful statement of this hypothesis is found in the work of Carmelo Mesa-Lago.⁶¹ In his extensive study on the social security systems of five Latin American countries, Mesa-Lago contend that stratified pressure group power best explains Latin American policy development. The mosaic-like quality and uneven protection of the various social security schemes result from variations in the power of pressure groups, their relative abilities to articulate demands for coverage, and their capacities to mobilize the political resources to procure the enactment of social security expansion. Thus, discrepancies in the political and economic resources of the military, civil servants, white collar workers, the 'labour aristocracy,' regular unionized workers, and marginal sectors account for the differential degrees of their inclusion in a scheme and the differences in the quantity and quality of the benefits they receive. Mesa-lago does acknowledge the potential role of other key political actors, such as the social security bureaucracy and the governing elite, but concludes that the pressure group stratification approach provides the most useful interpretation of policy development in Latin American countries.⁶²

In sum, this interpretation ensures that welfare policy is, at least in theory, representing the interest or value of the greater majority. This political pluralism assumes the nature of the state upon the premises that political power is competitive, fragmented and diffused; everybody, directly or through organised groups, has some power and nobody has or can have too much of it.⁶³ The state, acting in response to a multitude of conflicting pressures from organised groups and interests, can not show any marked bias towards some and against others. While the basic theoretical framework and much of the application of this approach have been designed with reference to industrialised Western nations, this perspective

⁶⁰ Daniel S. Sanders(1973), The Impact of Reform Movements on Social Policy Change: The Case of Social Insurance, Fair Lawn, L.F.: R.E. Burdick.

⁶¹ Carmelo Mesa-Lago(1978), Social Security in Latin America: Pressure Groups, Stratification and Inequality, Pittsburgh: University of Pittsburgh Press.

⁶² Ibid., pp. 11-13.

⁶³ Ralph Miliband(1973), The State in Capitalist Society, London: Quartet Books. p. 4.

has also been employed to interpret social security policy development in some developing countries. However, as we have seen in the Mesa-Lago's work, the result is quite different from the industrialised countries. That is, the higher level of social security privileges and benefits which middle and upper strata groups have obtained vis-a-vis lower strata group is a function of their greater political power.

2.3.2. Evaluation.

In the literature on the political system and political processes, this approach has been used extensively and is subject to measured refinements and elaborations. It has provided a relatively well-developed theoretical framework within which public policy outputs may be interpreted. In particular, works like that of Mesa-Lago merit considerable attention for the strength of their analysis and their theoretical clarity. Within the field of public policy analysis, therefore, the pluralist perspective has obtained considerable respectability.

Despite the existence of several studies which stress the role of interest articulation and pluralist politics, the application of this theory has some critical flaws.

The first problem is that the state is not the neutral arbiter as pluralism suggests. The structuralist theory articulated by Poulantzas⁶⁴ identifies the state as the representation of the balance of class forces in society, a balance which in capitalist societies always favours the dominant economic class but which is still highly variable over time. Furthermore, many dependency analysts such as Miliband, claim that the eventual purpose of most state action is to benefit the rich by strengthening the long-term process of capital accumulation and ensuring reproduction of the system. In the process of development of capital accumulation marked by rapid growth and exclusion, the working class is mobilised only economically and not politically. As far as the society remains a capitalist system, that is a relatively small number of people who own a markedly disproportionate share of personal wealth, and whose income is largely derived from that

⁶⁴ Poulantzas, N.(1973), Political Power and Social Classes, London: New Left Books.

ownership.⁶⁵ Miliband thus points out that the principal form assumed by the 'relations of production' in these capitalist countries is that between capitalist employers and industrial wage-earners.⁶⁶ In consequence, state intervention in economic life means intervention for the purpose of helping capitalist enterprise.⁶⁷ He also analyses this process of state intervention as the 'bias of the system' which is justified by the process in which: "the ideological dispositions of governments have generally been of a kind to make more acceptable to them the structural constraints imposed upon them by the system; and these dispositions have also made it easier for them to submit to the pressures to which they have been subjected by dominant interests."⁶⁸

Hall and her associates also point out that political pluralists have confused the political process with political power. They argue that there is a possibility that policy-making takes place within an unequal distribution of power. Therefore, they put forward a 'bounded pluralist' approach which argues that the policy-making process operates within a distinctly pluralist process, but that the limits of policy-making are set by elites which for many purposes are indistinguishable from what Miliband calls the ruling class.⁶⁹ In this conception, the interest groups are not necessarily equal in political strength or economic muscle, nor can the state any longer be seen as a neutral arbiter or switchboard. In particular, critical pluralists of this sort have argued that the business corporation wields a disproportionate influence over the state.⁷⁰ By the same token, the analysis of the creation of social security reveals a relatively small number of elite groups being represented in the policy-making process because of the disincentives to organize include costs such as time, money, and lost opportunity. Further, the incremental nature of later changes dissipated resistance from an obvious interest group. Based on these views, the state can not be expected to be a major instrument for redistribution against the will of dominant economic class interest. It can therefore be argued that the political pluralism of social security policy development is only a surface appearance, concealing a

⁶⁵ Miliband(1973), Ibid., p. 17.

⁶⁶ Ibid., p. 16.

⁶⁷ Ibid., p. 72.

⁶⁸ Ibid., p. 73.

⁶⁹ Phoebe Hall, et.al.,(1975), Change, Choice and Conflict in Social Policy, London: Heinemann.
p. 151.

⁷⁰ Gregor McLennan(1987), Ibid., p. 85.

compromise of competing social values, and that state welfare is not a consensual agreement of the whole society, but rather is a set of policies to meet the long-term interest of the upper or upper-middle social classes.

The second problem is that the pluralists also overlook the fact that often agenda-setting and actual amendment-writing are the most important stages in the political process. It is in framing the outlines of the debate, for example, that more radical alternatives can be discounted, before a single debate occurs. And even though a group might oppose the original legislation, once they realize that it is going to be passed, they often play a part in writing the final piece of legislation.

Finally, the uncritical application of pluralist notions to the Korean context is also open to serious question. The application of this theory to Korean politics, is the only attempt to force Korean realities into a model developed by Western political scientists to explain essentially alien Anglo-American reality. That is because the bulk of the recent work on Korean politics indicates that pure pluralist theory is simply inadequate to explain the nature of the Korean political process and the development of governmental outputs. In the Korean political environment, class politics is less salient than in advanced capitalist countries. Under conditions of weak labour union, subordinate working classes try to organise the labour unions as a socio-political force against the power bloc for the class interests.⁷¹ But with their small size and diversity, combined with the government control, until recently, their interests have not had real representation. If they acknowledge that select high status group, such as prominent domestic capitalist who have a solid interlocking relationship with key political elites, they may be able to effectively press their claims and secure desired political outcomes. These analysts contend that occupational organization such as labour unions do not have this political capacity. Instead, they present workers' organisations as fundamentally bound to the political regime over legal recognitions. This permits extensive regime control of the activities of unions. Thus, these 'pressure groups' are hardly in a position to make autonomous demands for social security protections or secure implementation and expansion of existing social security policies. This increasingly prominent interpretation of Korean politics, therefore, issues a serious challenge to the pressure group politics approach. Therefore, any

⁷¹ Byug-Baeg, Im(1987), "The Rise of Bureaucratic Authoritarianism in South Korea," World Politics, Vol. 39 No. 2 p. 236.

interpretation of social security policy development in Korea as the product of autonomous pressure group demands and the articulation of workers' interests should be viewed with a certain scepticism. It is only conceivable that the evolution of social security policy in certain industrialised countries such as Britain⁷² or Latin American countries⁷³ may be best explained in this manner. Analyses which focus on the role of pressure group activities and the stratified nature of their access to decision makers are not, however, completely erroneous in Korean reality. It would be fallacious to assume that the control and repression of the worker is monolithic and undifferentiated in Korea. Likewise, it would be erroneous to assume that no connection exists between the needs and interests of workers, and the types of social welfare policies developed by the regime. There are quite notable differences in the size, organisational structures, activities and economic importance of different groups in Korean society. On the other hand, there are significant differences in the extent and quality of social security protections which different groups receive. Analysts operating within the pluralist framework are right to point out variegated treatments received by different sectors of Korean society and the notable discrepancies in their social security protections.

Their error lies, not in their recognition of interest group plurality and differentiated access to decision-makers, but in their excessive emphasis on demand articulation, and their inadequate analyses of the power and perogatives of key political elites. These notable modifications of the pluralist perspective should, therefore, enable the analyst to selectively incorporate insights offered by the pressure group politics approach and produce a more realistic appraisal of the impact of pressure group activity upon social security development in Korea.

2.4. The Authoritarian-Corporatist Approach.

In the pluralist approach, group pressure is generated autonomously within society. The role of the government is hypothesized as that of 'broker' between contending interests. However, a crucial assumption in corporatist

⁷² See, Rimlinger, G. V.(1971), Welfare Policy and Industrialization in Europe, America and Russia, New York: Wiley. Part I.

⁷³ Mesa-Lago(1978), Ibid.

thought is that the state may not be a mere passive receiver of pressures from groups. It may also exercise its own initiatives by using social security as the instrument to co-opt, neutralize, and control those groups in order to maintain some sort of social order. In an attempt to overcome a perceived threat from so-called populist movements or from political mobilization by 'popular' sectors, some regimes have created a government structure which excludes these groups as a primary element in achieving 'order' and 'social peace.'⁷⁴ This theory, therefore, stresses the linkage between the state and the policy development, and is central to the state-centred model.

2.4.1. A Theoretical Approach.

The most rigorous contemporary specification of the concept in ideal-typical has been provided in an outstanding articles by Schmitter:⁷⁵

"Corporatism can be defined as a system of interest intermediation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered, and functionally differentiated categories, recognized or licensed(if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and support."

The objective of this definition is to distinguish 'corporatism' from other types of 'interest intermediation,' such as 'pluralism' and 'syndicalism.' As specified in the above definition, the differences between pluralism and corporatism may embody alternative relations of power and influence: they could have emerged 'from below' in more-or-less spontaneous response to prior changes within civil society and the associational sphere itself; or they could have been imposed 'from above' as a matter of deliberate public

⁷⁴ O'Donnell, G.(1974), "Corporatism and the Question of the State," In Malloy J.(Ed.), Authoritarianism and Corporatism in Latin America. Pittsburgh: Pittsburgh University Press. p. 57.

⁷⁵ Philippe C. Schmitter(1974), "Still the Century of Corporatism?" Review of Politics, Vol. 36. No. 1. pp. 93-94. and Schmitter(1977), Models of Interest Intermediation and Models of Societal Change in Western Europe," Comparative Political Studies, Vol. 10 No. 1. p. 9.

policy contrived and controlled by preexisting authority groups.⁷⁶ Initially, therefore, corporatist analysis sought to go beyond classical pluralism, suggesting not only a different institutional configuration in the relationship between specialised interest associations and the political process, but also a different way of conceptualizing the role and importance of the state. Instead of pluralist's picture of many power centres based upon voluntary groups, the corporatist theory reflected the increasing centralisation of organised interest groups(especially capital and labour). Moreover, corporatism witnessed the special role of the state itself in constructing a framework for both economic and political affairs. According to the corporatist approach, the state is no longer seen as a primarily dependent factor or variable; it appears to have been and is a primary actor in the formation of interests and of civil society in society. With the conspicuously enhanced, expanded role of the state, the causality conceived by orthodox pluralist approaches---intermediary associations or class actors are the producers of public policy, not its products--- is inverted, if not perverted. Not only might state authorities deliberately seek to create from above a structural configuration of interest politics compatible with their type of political regime and their policy goals, but the indirect and often unintended impact of changes in public policy may determine the timing, form, internal structure, area of representation, mode of action and type of leadership of associations. Endowed with state sponsorship through legal privileges, interest associations therefore are not always autonomous entities putting pressure on the state from outside, but rather instruments of public policy used by the state.

The introduction of corporatism as a widespread systematic process, with corporatist structures playing a significant political and economic role, is traced to the World War II period, even though corporatist tendencies in liberal democracies may be traced as far back as World War I. The crucial factor, and the factor that allows us to locate its development in a country like Sweden, was the necessity of sustaining trade union cooperation during the course of the war with the promise of continued prominence in decision-making after the war and a commitment not to return to prewar conditions, the recognition that the experience of full employment and comprehensive planning had led to rising expectations of a postwar rise in living standards

⁷⁶ Schmitter(1977), *Ibid.*, p. 10.

and security on the part of the working class, the example of the Soviet economy and the common regarding its effect on the working class in the postwar period, and , finally, the mass radicalism that exhibited itself in the electoral success of working class parties in the immediate postwar years.⁷⁷ This provided the material basis for industrial militancy in the postwar period and for the reactive introduction of incomes policies and social welfare measures designed to coerce or induce wage restraint on the part of trade unions. From its very inception, state social expenditure in the postwar period was introduced with the threat of wage pressure a key element in the policy equation. Therefore, corporatism refers to the widespread tendency across the advanced capitalist countries for industrial relations between employer and trade union organisations to be resolved and institutionalised at the level of the state itself. In addition, it was the changing balance of class forces which attended the commitment to full employment and the consequent development of economic planning to deal with its consequences that lay at the heart of capitalist development. To legitimate this increased state-business interface, as well as to facilitate labour cooperation at the level of industrial industries, joint consultative structures, workers councils, and the like were often promoted.

In his articles, Schmitter outlined two subtypes of corporatisms: societal corporatism and state corporatism. Societal corporatism is found embedded in the political systems with relatively autonomous, multilayered territorial units; often, competitive electoral processes and party systems; ideologically varied, coalitionally based executive authorities--even with highly 'layered' or 'pillared' political subcultures.⁷⁸ To explain the emergence of societal corporatism, Schmitter argues that:

"The roots of societal corporatism can be traced primarily to the imperative necessity for a stable, bourgeois-dominant regime, due to process of concentration of ownership, competition between national economies, expansion of the role of public policy and rationalisation of decision-making within the state to associate or incorporate

⁷⁷ Leo Panitch(1977), "The Development of Corporatism in Liberal Democracies," Comparative Political Studies, Vol. 10 No. 1. p. 77.

⁷⁸ Schmitter(1977), Ibid., p. 11.

subordinate classes and status groups more closely within the political process."⁷⁹

Yet although the class structure and conflicting interests in capitalist society have played a key role in generating societal corporatism, Schmitter assumes that, once the institutions and systems of interest representation have developed, the participating organisations tend to acquire a relative independence from and even disregard for, the interests of the individuals, sectors and class that they supposedly represent. The leaderships of the organisations do not only or primarily 'represent' the interests of their members in decision-making at different levels of the state. Once in operation, societal corporatism is thus becomes a relatively stable and resilient means for the dominant groups in bourgeois society to maintain their dominance. Although Schmitter explicitly wanted to challenge the pluralist interpretation, somewhat surprisingly he thus assumes that the institutional arrangements of societal corporatism create a stability in the capitalist democracies reminiscent of the stability generated by the institutions for conflict resolution in the pluralist industrial model.

State corporatism, on the other hand, tends to be associated with political systems in which territorial subunits are tightly subordinated to central bureaucratic power; elections are nonexistent or plebiscitary; party systems are dominated or monopolized by a weak single party; executive authorities are ideologically exclusive and more narrowly recruited; and , finally, political subcultures based on class, ethnicity, language, or regionalism are rigorously repressed.⁸⁰ According to this definition, state corporatism was introduced concomitantly with the abrogation of liberal democracy and the smashing of the indigenous organisations of the working class in order to repress both political and industrial class conflict. The progress of corporatist ideas since the late nineteenth century and the advent of authoritarian 'corporatist' regimes in the twentieth century have been strongly fostered by critiques of parliamentary and party government. To be sure, corporatist doctrines have not been unanimous in their assessment of universal

⁷⁹ *Ibid.*, pp. 24-25.

⁸⁰ Schmitter(1977), *Ibid.*, p. 11.

suffrage, parliament, and competitive party systems.⁸¹ This is still more true of the praxis of authoritarian regimes which have adopted corporatist devices. Having abolished free universal suffrage, the competitive party system, and parliament government, modern dictatorships use alternative techniques of consensus mobilisation: either disciplined mass 'movement' or a system of 'state corporatism.'

The distinguishing structural and behavioural differences between the two are seen to depend on whether the matter of the constituent units, in terms of their limited numbers, singularity, compulsory character, and monopolistic representation of functional groups is a product more of general socioeconomic developments and voluntarist arrangements than of state imposition, and whether the state's controls on their leadership selection and interest articulation is a product of "reciprocal consensus on procedure and/or goals", or of an asymmetric imposition by the organised monopolists of legitimate violence."⁸²

Even though many scholars have used the term one-dimensionally to apply only to 'societal' or 'liberal' corporatism, corporatism as used in this research focuses on the 'state' or 'authoritarian' representation. In other words, we will focus on the state's group reciprocal influence on interest groups, and their consequent employment as agencies of mobilisation and social control for the state vis-a-vis their members.

As far as state corporatism is concerned, perhaps one of the most fruitful theoretical advances is found in what Guillermo O'Donnell has termed 'Bureaucratic Authoritarianism'(hereafter BA).⁸³ O'Donnell saw bureaucratic authoritarianism as a particular type of authoritarian rule in which the state, with a high level of coercive power, is run by a dominant

⁸¹ Gerhard Lehmbruch(1977), "Liberal Corporatism and Party Government," Comparative Political Studies, Vol. 10 No. 1. p. 91.

⁸² Schmitter(1974), Ibid., pp. 103-104.

⁸³ Guillermo A. O'Donnell(1973), Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics, Bekeley: University of California, Institute of International Studies. and O'Donnell(1978), "Reflections on the Patterns of Change of in the Bureaucratic Authoritarian State," Latin American Research Review, Vol. 13 No. 1. pp. 3-38.

For the debates on O'Donnell's argument in various aspects, see David Collier(Ed.)(1979), The New Authoritarianism in Latin America, Princeton: Princeton University Press.

coalition of military leaders, upper bourgeoisie and high level technocrats in close association with foreign capital. Its political domination by those new elite groups is assisted by a high level of state coercive power with a dominant role in the executive branch. Its policy outputs or outcome appears primarily to secure interests of big industrialists and foreign capital at the expense of the interests of the popular sector including the working class. In O'Donnell's formulation of the bureaucratic authoritarianism argument, state corporatism, though defined as a set of structures linking society with the state, should be principally conceived as a state-centred, coercive institutional arrangement to 'incorporate' or 'exclude' the popular sector and the working class in particular. No matter how applicable to other regimes or countries beyond Latin America the bureaucratic-authoritarian model may be, O'Donnell combines a concern for political structure with a concern for who governs and who benefits.

Authoritarian-corporatism restricts the civil and political rights of the citizen, curtails or abolishes free elections, doing away with political competition between parties and parliamentary government, and above all deprives trade unions of their autonomy and integrates them forcibly into the state apparatus.⁸⁴ According to the authoritarian corporatism, therefore, responsibility for policy initiation ultimately resides in the hands of top political leader. The leader pursues the programmes and policies which he decides will enhance the overall stability of the system and promote the general developmental interests of the state. Other political actors such as the interest groups and bureaucrats, play an essentially reactive role. They are encouraged to participate in the decision, but only after the leader has already decided the nature of the problem and publicly sketched the contours of the policy response to it. This limited participation permits the leader and his key advisers to locate the sources of discontent, coopt those who are dissatisfied, and undermine the opposition. He may permit certain minor modifications of the programme to placate some dissenting sectors, but if their opposition continues, he can ultimately force compliance and quiescence through overt repression. Otherwise, he has a number of means at his disposal with which to retain control over the bureaucracy. The high degree of bureaucratic turnover enhances administrative dependence upon

⁸⁴ Ramesh Mishra(1984), The Welfare State in Crisis: Social Thought and Social Change, Sussex: Wheatsheaf Books LTD. p. 107.

continued good relations with the leader, and affords the latter a large degree of decisional control.

From this point of view, authoritarianism really contradicts the essence of the corporatist welfare state, because where corporate structures remain, their functions are not so much those of representation but control. How and what light then does authoritarian-corporatism throw on the problem of exploring and explaining the part which the state plays in formulating and implementing social security programmes?

One of the main answers is that social policy has always been seen as having a role to play in promoting socio-political stability.⁸⁵ Although the outcomes for the poor has often been positive, there seems little doubt that the primary function of social welfare has been one of social control and appeasement. A fundamental weakness of these regimes arises as a result of their severing links with any popular base so that they are left without adequate means to legitimize themselves. That the nature of this provision has changed significantly over the past two decades is a result of the failure of traditional forms of appeasement. The state has been obliged to seek new measures in order to guarantee stability. In these circumstances, an efficient, well-managed system of social welfare provision may be an important element in keeping the populace passive.⁸⁶

In this respect, George and Wilding mentioned that the first and most important way in which social services contribute to political stability is through the amelioration or solution of problems which could provoke serious discontent and might be used as an indictment of the existing economic and political order.⁸⁷ The easing of social problems, as they suggested, has an impact on political stability in three different ways:⁸⁸

First, it reduces suffering and so presumably discontent among the victims of such problems; Secondly, social services greatly reduce the ammunition available for would-be critics of the

⁸⁵ Viv George and Paul Wilding(1984), The Impact of Social Policy, London: Routledge and Kegan Paul., p. 187.

⁸⁶ Peter Ward(1986), Welfare Politics in Mexico: Preparing Over the Cracks, London: Allen & Unwin. p. 2.

⁸⁷George and Wilding(1984),Ibid., p. 189.

⁸⁸ Ibid., pp. 189-215.

established economic and political order seeking to challenge its ability to respond to human needs and make good the ravages of its economic orthodoxies; Finally, the easing of social problems through social service provision shows the existing political order in a new light. The established order assumes a new legitimacy and so attracts new sources of loyalty.

Such ideas were adopted and developed by Western social scientists to explain the development of social security programmes.

The first of these is Rimlinger's discussion of social security development in Chancellor Bismarck's Germany in the 1880s.⁸⁹ In the German context, the social security programme was developed largely at Bismarck's initiative in order to stifle labour discontent, undermine the socialist opposition, and strengthen the loyalty of workers to the state. Although he was acting in response to pressure from below, the system he created was guided by the interests of the existing political order.

Beveridge's interest in social security, as Harris points out, stemmed from his conception of society 'as an increasingly complex organism in which it was desirable to foster social solidarity and feelings of identification with a benevolent state.'⁹⁰ Skocpol explains the development of Social Security Act in the United States in similar terms, arguing that "it was state managers who controlled policy initiatives, and the handful of big business involved in formulating social security were not representative of their class."⁹¹ In their research on the development of social welfare in the United States, Piven and Cloward also argued that "relief arrangements are initiated or expanded during the occasional outbreaks of civil disorder produced by mass unemployment, and are then abolished or contracted when political stability is restored."⁹²

On the other hand, O'Connor describes how different forms of state expenditure attempt to fulfil both the accumulation and legitimization functions. Government expenditure, O'Connor argues, is grouped under the two main headings of 'social capital' and 'social expenses'. While social

⁸⁹ Rimlinger(1971), Ibid., pp. 89-136.

⁹⁰ Harris, J.(1977), William Beveridge, Clarendon Press. pp. 102-103.

⁹¹ Theda Skocpol and Hohn Ikenberry(1983), "The Political Function of the American Welfare State in Historical and Comparative Perspective," Comparative Social Research, Vol. 16. pp. 87-148.

⁹² Piven F. and Cloward R.A.(1972), Cloward, Regulating the Poor, Tavistock, p. xiii.

capital is concerned with accumulation and with increasing productivity and profits, social expenses consists of projects and services which are required to maintain social harmony---to fulfil the state's 'legitimization function'.⁹³ The most obvious example, as he points out, "is the welfare system, which is designed chiefly to keep social peace among unemployed workers."⁹⁴

Gough argues that "the capitalist state simultaneously acts to organize the dominant classes as a political force and to politically disorganize the dominated classes."⁹⁵ The dominant class may need to compromise and make sacrifices in order to maintain its dominance, and it is out of this "unable equilibrium of compromise" that social reform and social programmes result. Unlike O'Connor, however, Gough argues that the welfare state, at least in Britain, resulted from "the post-war settlement between capital and labour" and not from "concessions forced from the state by militant working-class struggle."⁹⁶ In other words, concessions were made by the dominant class on the basis of self-interest, and not because the labour movement forced its hand. It is only since the Second World War and the establishment of a welfare state that the bargaining power of organised labour has been sufficiently strong to make a significant impact. Although Gough is suggesting that working-class or labour movement agitation were not very influential in the development of social policy before 1939, he does argue that more general and widespread discontent were important causal factors at particular moments.⁹⁷

With regard to the relationship between the modernizing authoritarian regime and social security policy development, Malloy argues that "social security policy in most Latin America flowed from a paternalistic elite defined attempt to diffuse labour agitation and protect the *status quo*."⁹⁸ Using Brazil as a case study, he disagreed with Mesa-Lago's interpretation. He, then, suggested that the state does not respond passively to the pressures exerted on it by different pressure groups but usually takes the initiative for

⁹³ James O'Connor(1973), The Fiscal Crisis of the State, New York: St. Martin's Press. p. 7.

⁹⁴ Ibid..

⁹⁵ Ian Gough(1975), "State Expenditure in Advanced Capitalism," New Left Review, Vol. 92. p. 65.

⁹⁶ Ibid., p. 68.

⁹⁷ Joan Hiffins(1980), "Social Control Theories of Social Policy," Journal of Social Policy, Vol. 9 part I. p. 6.

⁹⁸ Malloy, J.(1979), The Politics of Social Security in Brazil, Pittsburgh: University of Pittsburgh Press.

social welfare. Nor does the state function subsequently to the dictates of a ruling capitalist class, as some Marxist writers have claimed. This, he argued, is an oversimplified conception of the political process which fails to recognise the growth of the poor of the state and the importance of state-centred political realities in modern societies. Therefore, the development of social security can best be conceptualised, Molly argued, in terms of a corporatist model in which political and administrative elites use social provisions to manipulate established tradition of state-craft and to maintain the corporate structure. Although Malloy's interpretation is debatable, it offers a far more sophisticated account of the use of social welfare measures by elites than the over-simplified conspiracy theories which have enjoyed some popularity in academic circles.⁹⁹

Finally, what, then, can we say about state autonomy in the Korean context and what light do state-centric case studies throw on the problem of exploring and explaining that part which the state plays in formulating and implementing social security programmes?

As we shall observe in the following chapters, Korea does not readily comply with the classic model of 'bureaucratic authoritarianism.' Political pluralism exists, and there is a close relationship between the state and popular groups. However, state domination over civil society in Korea with a high degree of state bureaucratization was even more strengthened in the wake of the creation of the Republic as an 'anti-communist bulwark' in East Asia and the Korean War---accompanying the violent political events which forged anti-communism to a universal degree of ideological unity of dominant elites and the populace in general, as well. Furthermore, the division of the country and thereby 'the constant threat from the North' justifies the state monopoly of coercive, economic and symbolic resources.

Under such circumstances, elite groups desiring to seize the state apparatus emerge first, and then legitimize and institutionalize their dominant role in defining the national interest and ordering its priorities. Political institutions and private associations are either created or restructured by political leadership. Further, weakly organised social or political associations in strength, number and ideological allegiance minimizes the coalitional possibilities avoidable to the state elites. With the minimal role of the party and legislative body, important decisions are made

⁹⁹ James Midgley(1984), Social Security, Inequality and the Third World, Chichester: Wiley. p. 126.

in a closed circuit by the chief executive himself and a handful of technocrats and high ranking bureaucrats. A high degree of state bureaucratization and ideological cohesion of the state elites would provide a supportive condition for installation of authoritarian control over one of the most significant producers' groups, industrial workers, to facilitate implementation of industrial modernization as the regime's prime goal.

Therefore, these studies provide much substance to the entrepreneurial elite interpretation of social security policy development in Korea. Each of these studies either directly or indirectly illustrates the linkage between authoritarian-corporatism and public policy. In particular, the Molloy position on the applicability of this approach to the Korean context has considerable plausibility, because, as we have mentioned already, the facts surrounding the creation of the institution lend support to this theory.

To summarize, a general literature on the authoritarian-corporatist model has emerged in recent years, and several analysts have analyzed the authoritarian character of the Korean political regime and its impact upon the public policy making processes. While no systematic application of this perspective of social security policy development in Korea has been done, the general lines of argument implicit in such an approach are readily discernible. Utilization of this approach in our study of social security policy development in Korea seems, therefore, to merit serious consideration.

2.4.2. Evaluation.

The authoritarian-corporatist approach focuses explicitly on the internal dynamics of the political arena, and is uniquely sensitive to the realities of power and conflict which are the essence of politics. It offers an analytical strength which few approaches to public policy determinance can parallel.

Yet, this approach has also several notable problems in being applied to the development of social security policy.

One of the basic problems of the corporatist model concerns its epistemological status. Corporatism is defined as an institutionalised pattern of policy-formation in which large organisations cooperate with each other and with public authorities not only in the articulation of interests, but in the

'authoritative allocation of values' and in the implementation of such policies. The most important interest organisations included in the corporatist pattern are organised labour and business. Therefore, corporatism conceives of societies as a dualism between the state on the one side and interest organisations on the other side. However, this has some ambiguities. First, with reference to the former 'pole,' it remains unclear what its theorists understand by the concept of the state. For example, as the concept of corporatism is concerned with a description of the link between the decision-making structure and interest organisations, it would seem necessary to define which action units constitute the state: is it the government, or the administration, or the parliament, or all three of these units? As associations have to use different strategies when trying to influence state decisions depending on whether they are made by the government or by the parliament or by the administration, it seems to be necessary to differentiate between the different possible counterparts which interest organisations must meet within the decision-making structure.¹⁰⁰ Secondly, when looking at the second 'pole,' it is not clear whether it should include only occupational and economic organisations, or whether it should also include a third one, namely, the socioeconomic structure or, more specifically, the nature and extent of the unorganised population. The decision to concentrate only on economic problems and associational organisations should not justify the exclusion of 'noneconomic' interest groups *ex ante*. Finally, it does not refer to the organisational level *per se* or to the relation between the organisations and the social structure, but to the link between state and civil society. Therefore, one should ask if a state confronted with monopolistic associations representing the central economic interests has any other alternative but to 'recognize' them in one way or the other. Here it would be interesting to specify whether the state has control over the context of the interests expressed, over how violently they are passed, over the point of time at which they are articulated, and to which stage of the decision-making process they are addressed (i.e., the initiating stage, the consultative stage, or the final decisive stage). Influence mechanisms by associations and means of control by the state respectively will vary widely according to the area in which the state tries to control

¹⁰⁰ Birgitta Nedelmann and Kurt G. Meier (1977), "Theories of Contemporary Corporatism: Static or Dynamic?" Comparative Political Studies, Vol. 10 No. 1. pp. 41-42.

interest articulation and the area in which the interest organisations try to affect public policy.

In relation to the development of social security policy, the corporatist approach has some problems. The first problem is that this approach is too confining in its purely instrumental understanding of social welfare policy. This approach generally argues that these measures have the intended effect of maintaining social inequality by inhibiting the growth of class consciousness and that political dissent class conflict is the key to understanding the development of social policy. Therefore, the main theme of this approach is that social policy does not evolve out of humanitarianism or compassion but as a response by the ruling elites to threaten social stability. Social control and an affirmation of the work ethic are its main objectives. Ruling elites are said to act on the basis of certain predictable patterns of behaviour, to defend their self-interest and to assert their superiority. However, the converse of this argument must be considered. There are many groups in the population, for example, who do not constitute a threat to social stability but who have benefited greatly from the expansion of social services. Many sick and disabled, and other groups outside the labour market, do not really offer a threat to policy-makers, except in their potential for embarrassing them.¹⁰¹

The second problem is that when mass disturbance occurs or is threatened the result is always an increase in welfare spending according to this approach. However, this view can hardly be held simultaneously with the totalitarian notion of power implicit in the social control thesis. There have been situations in which mass disturbances has resulted in overt forms of social control, such as an increase in police activity, rather than indirect control through social policy. Policy-makers have to consider the influence of middle-class anti-welfare attitudes on government decisions. In order to substantiate this approach, therefore, we would need to look not only at the effects of policy but at the motives of policy-makers. If social stability is one outcome of policy, then it must have been desired as a primary goal. However, if the outcome of social welfare programmes is manipulation or stigmatization of the recipients, then this too must be related to the intentions of policy-makers.

¹⁰¹ Joan Higgins(1978), The Poverty Business Britain and America, London: Martin Robertson, pp. 17-18.

This last limitation centres on its general applicability to the Korean context. While no systematic or comprehensive study on the role of authoritarian-corporatism in the development of social security policy in Korea has been done, this approach suffers from two notable limitations.

The first of these deals with a general vagueness of definition which characterizes several key concepts. The precise meaning of an 'authoritarian-corporatism' is very difficult to grasp and specify, because, even though some characteristics of Korean politics are similar to those found in the Latin American bureaucratic authoritarian regimes, some Korean social scientists¹⁰² differentiate the Korean case from the O'Donnell's Bureaucratic-Authoritarian model.

The similarities are:¹⁰³

(1). The popular sector was politically excluded: competitive elections were abolished; strikes were prohibited; the organisation of labour unions was severely restricted; and basic human rights were violated arbitrarily.

(2). The popular sector was economically excluded. The primary focus of economic policy was on overall economic growth, but not on the improvement in the standard of living of the middle and lower classes. Korean labour was not allowed to share equitably in the distribution of earnings from economic growth. Instead, the big bourgeoisie and the high-ranking state bureaucrats monopolized most of the benefits from economic growth.

(3). The regime tried to 'depoliticize' social issues in terms of technological rationality. Efficiency, rationality, and social stability replaced democracy as the basis on which the regime laid claim to legitimacy.

Despite these similarities in political consequences, the fundamental factors that differentiate the Korean case from the BA model are:¹⁰⁴

¹⁰² Professor Sang-Jin Han discussed the specificity in the rise of the Korean BA regime. See Sang-Jin Han(1983), "Bureaucratic Authoritarianism and Korean Society," In Study Group on Sociology of Seoul National University(Eds.), Tradition and Change in Korean Society, Seoul: Bummunsa. pp. 261-197. In Korean.

¹⁰³ Hyug-Baeg Im(1987), "The Rise of Bureaucratic Authoritarianism in South Korea," World Politics, Vol. 39 No. 2. pp. 239-240.

¹⁰⁴ Suk-Joon Kim(1991), "Crisis, Regime Change, and Development: A Quantitative Analysis of South Korean Political Transformation 1945-1987," In Gerald E. Caiden and Bun-Woong Kim(Eds.), Ibid., pp. and Hyug-Baeg Im, Ibid., p. 240.

(1). The deepening hypothesis is inappropriate in the Korean case, because the deepening of the Korean economy began in the mid-1970s and was the consequence rather than the cause of a BA regime. The Yushin regime was not justified by an economic crisis; instead, president Park justified Yushin on the pretext of continuing economic development and the national unification.

(2). Although there was more significant popular political activism in 1971 than earlier, there was no serious antiunion or antileftist fears among the military, the upper and middle class, and the state bureaucrats. Instead, external factors, such as North Korean military threats and the Nixon doctrine, facilitated security fears among the ruling class.

(3). Korea had established a strong state long before the rise of the Yushin regime and the Korean case does not support the strong state hypothesis of the BA model.

(4). The Korean state has dominated other ruling coalition partners, such as labour unions, business organisations, and foreign capital, since 1960s. Thus, no BA coup coalition that could have pressed for a regime change existed on the eve of a BA regime rise in Korea.

(5). There was relatively little discernable deterioration of income distribution despite the labour movement being repressed.

(6). Korea's foreign dependence was the consequence as much of its peculiar security needs as of the government's economic policy.

Although the bureaucratic authoritarian model can partially apply, therefore, its limitations need significant revision when using it for the Korean case.

The second limitation in the context Korea derives from the exclusivity of this perspective. The unqualified utilization of this approach suggests public policies as the purposeful choices each coalition makes as it attempts to solve the extent of social, economic and political problems. While this approach may have grasped the fundamentals of potential power in Korea, public policy formation and evolution in a complex society could hardly be so simple or so consistent. In the Korean political system, emphasis on the role and powers of the president and his immediate coalitions seems well justified. But the importance of several countervailing powers, the constraints imposed by socio-economic realities, and the complicated maze of bureaucratic implementation mitigate against pure presidential dominance.

Sometimes a president's proposals and goals have uneven success in obtaining acceptance and implementation because the presidential assistance and pressure for a proposal is not sufficient, in and of itself, to ensure its successful end and because certain constraints, as Benjamin A. Most mentioned, business associations have much more powers particularly than was previously supposed. Decisional power of the president, therefore, is constrained by situational imperatives frequently posed by the socio-economic context of the nation. Thus, we see some modification of the pure authoritarian interpretation, and a recognition of the countervailing influences of business groups and bureaucratic enclaves.

In sum, the president and his small coalition groups remain the most consistently important source of public policy initiation and change in Korea. And it seems that presidential approval is a necessary condition for major policy innovation. However, presidential commitment may not be a necessary and sufficient condition for the production of desired policy outcomes. Therefore, any thorough analysis of social security policy development in Korea must be sensitive to certain constraints on presidential power, and make appropriate the interplay of various forces influencing that development.

2.5. The Diffusion Approach.

The previous three approaches emphasized causes of social security policy development within a nation. However, this theory which explains the evolution of social security systems focuses upon the diffusion of policy innovations in the international arena. According to this perspective, international policy developments of a nation are influenced and informed by similar policy developments which have occurred or are occurring in other nations and regions of the world. As Rys has pointed out:

"no modern state exists in splendid isolation, independent of the international community that surrounds it, the study of factors which influence the establishment of social insurance in a country will

necessarily have to go beyond the frontiers of a national community and be considered also at the international level.”¹⁰⁵

The worldwide spread of social security programmes is not, therefore, simply the result of nations independently responding in a similar fashion to similar problems and needs, but, at least in part, the product of the diffusion of models and concepts from innovative centres to nations throughout the world. In particular, the diffusion of ideas and practices has been important in the creation of their social services in the developing countries.¹⁰⁶ The range of any plausible account of the development of statutory welfare services will remain seriously deficient unless the conventional domestic focus of this research is broadened to analyze developments in many more countries. Proper consideration must be also be given to the study of exogenous factors when investigating the origins of welfare schemes in different societies.¹⁰⁷

2.5.1. A Theoretical Approach.

Diffusion explanations have received only occasional attention in political analysis though they have been widely used in other areas of research.¹⁰⁸ However, the notion of diffusion is most frequently employed in the context of Third World development in contemporary social science. This is because the modernization theorists first applied it to describe the process by which the industrial culture of the Western World is transmitted to the newly-independent countries as an integral part of the development process.¹⁰⁹

Used in this way, the concept of diffusion may refer to the development of social welfare institutions through the exchange of information and views between policy makers or to the adoption of the welfare policies or practices

¹⁰⁵ Vlandmir Rys(1964), "The Sociology of Social Security," Bulletin of the International Social Security Association, Vol. 17. No. 1. p. 4.

¹⁰⁶ James Midgley(1984), "Diffusion and the Development of Social Policy: Evidence from the Third World," Journal of Social Policy, Vol. 13, Part.2. p. 167.

¹⁰⁷ Ibid., p. 168.

¹⁰⁸ David Collier and Richard E. Messick(1975), "Prerequisites Versus Diffusion: Testing Alternative Explanations of Social Security Adoption," The American Political Science Review, Vol. 69. p. 1300.

¹⁰⁹ James Midgley(1984),Ibid., P. 168.

of one country by policy makers in another; it may result in the discerning adaptation of foreign experiences or the uncritical replication of alien welfare policies.¹¹⁰

While diffusion approach to social security policy development has not been used extensively, several social analysts and members of international organizations concerned with social security have referred to the role of diffusion in the development of the modern social services in the industrial countries. In his rough sketch of the major determinants of social security policy development, Rys paid considerable attention to 'external factors' influencing social security evolution.¹¹¹ He argued that enquiries into the social policies of neighbouring states had long been undertaken by European governments to assist them to develop their own welfare provisions. As examples of what he calls the 'cultural diffusion factor,' he notes that Lloyd George had the German social insurance programme carefully studied before he introduced the first British social security scheme, and the existence of advanced social insurance programmes in recently annexed Alsace and Lorraine had a strong impact on the development of social security in France in 1932.¹¹² His analysis notes that migrations of workers and reciprocal agreements in social security affairs can have a harmonizing effect upon social security programmes in different nations.

Taira and Kilby have included an analysis of the role of geographical proximity in their study of social security expenditures among the industrialised, capitalist countries of the West and of Western origin.¹¹³ In this analysis, they find clear differences between countries in the European common market, other European countries, and non-European countries in levels of spending for social security. While their argument merits serious criticism for its inability to separate cultural, economic, or political influences from geographical ones, this study does suggest that spatial diffusion may have an impact on social security development.

¹¹⁰ *Ibid.*, p. 170.

¹¹¹ Rys(1964), *Ibid.*, pp. 26-33.

¹¹² See also, Thomas Jones(1951), Lloyd George, Cambridge, Mass.: Harvard University Press. pp. 36-37.

¹¹³ Koji Taira and Peter Kilby(1969), "Differences in Social Security Development in Selected Countries," International Social Security Review, Vol. 22. pp. 143-145.

In a study that attempted to explain the timing of adoption of a nation's first social security programme, Collier and Messick provided confirmation of the theory that the national decision to establish a social security framework is influenced by the prior establishment of social insurance programmes in other nations.¹¹⁴ This study focuses heavily upon the role of diffusion in the timing of social security adoption in fifty-nine countries. They make an important distinction between hierarchical diffusion and spatial diffusion. The former refers to the initiation of social insurance schemes in the most economically advanced nations of West Europe and their replication in developing nations around the world. Spatial diffusion involves the 'spillover effect' across neighbouring international borders or along lines of communication and foreign trade routes. With regard to the timing and sequence of diffusion, their central finding is that the adoption of a social security programme is best seen as the product of hierarchical diffusion, in which a diffusion process descends from the more advanced centres to more backward regions. Data is presented which indicates that late-developing nations tended to adopt social security policies at much lower levels of 'modernization' than did the innovators of the programmes. Yet, they assert that there exists a particular pattern of diffusion where the development process originates not from top of a development hierarchy, but rather from the lower part. The Chinese and Cuban models of economic and political development have exemplified the case.¹¹⁵ In the second phase of social security adoption, spatial diffusion plays an important role, with nations imitating neighbours, while in the final stage, hierarchical diffusion from centre to peripheries provides the dominant pattern. They conclude that the diffusion of the innovation approach provides the most important key to understanding when and why nations adopt a social security policy.

Finally, these analysts note the development of a whole host of international organizations and international agreements which are involved in the dissemination of information, the provision of technical advice, the drafting of legislative proposals, the setting of international goals and minimal standards, and the organization of international conferences for

¹¹⁴ Collier and Messick(1975), *Ibid.*, pp. 1299-1315.

¹¹⁵ *Ibid.*, p. 1314.

experts and policy makers in the realm of social security. For example, the activities of the Correspondence Committee of the International Labour Organization played a major role after the First World War in spreading the idea of social security from Europe to other parts of the world and supporting the consolidation of the already existing systems.¹¹⁶ Since that time, the activities of groups such as the International Social Security Association, the Ibero-American Social Security Organization, and the Inter-American Social Security Conference have promoted the standardization of social security legislation.¹¹⁷ In analyzing the history and activities of these organizations, the conclusion is drawn that these international organizations have played a notable role diffusing information about social security policy developments and fostering the adoption of certain programmes and standards.

However, apart from these observations, the contribution of diffusion to the development of local welfare scheme has not been widely considered. The role of diffusion in the development of statutory social welfare in the Third World has been equally neglected.¹¹⁸ Even though it has been proposed that:

“given the frequency of scholarly and technical exchange programmes, the general lack of experience and expertise, and the continuing impact of the colonial legacy, one suspects that policy borrowing is particularly prevalent among less developed nations.”¹¹⁹

Only a few writers have attempted to incorporate the diffusion factor into their explanations of the development of welfare services in the Third World. The neglect of diffusion in explanations of social welfare in developing countries, and the tendency to relegate it to an explanatory factor of comparatively little importance, has resulted in the production of incomplete accounts which seriously underestimate the power of imperialism to shape

¹¹⁶ Isabel Craig and Igor Tómes(1969), “Origins and Activities of the ILO Committee of Social Security Experts,” *International Social Security Review*, Vol. 22. p. 509.

¹¹⁷ Collier and Messick(1975), *Ibid.*, p. 1305.

¹¹⁸ Midgley(1984), *Ibid.*, p. 169.

¹¹⁹ Howard M. Leichter(1979), *A Comparative Approach to Policy Analysis: Health Care Policy in Four Nations*, Cambridge University Press. p. 66.

social institutions in subjugated societies and to perpetuate them after decolonization.¹²⁰

Moving from an analysis of the industrialised countries and the role of diffusion to works which analyze the impact of diffusion upon Third World social security policy development, therefore, we will draw attention to the influence of colonialism and the international organizations. These two elements are most influential in fostering the development of social security programmes in the Third World.

The development of a social security system in the Third World is often a product of the colonial heritage they share with such nations as Great Britain, France, and Spain. Midgley, MacPherson and others drew attention to the historical influence of imperialism and colonialism in the development of Third World social policy. Although indigenous systems of welfare existed in many Third World societies before the advent of European rule, modern statutory social services in the Third World are not derived from these provisions but from European conceptions of welfare which were introduced during colonial times.¹²¹ During this period, the missionaries, voluntary societies, colonial administrations and other organizations such as multinational firms played a key role in the early diffusion of Western welfare practices to the Third World. After independence, the colonial social welfare has been fostered by sustained links between the developing countries and their former colonial rulers. Aid programmes, designed to assist the developing countries in pursuing the objective of modernisation, expanded considerably during the 1950s and 1960s and, in the social welfare field, these resources were used extensively to train social service professionals and administrators in the metropolitan countries and to provide technical expertise for the development of local social service facilities.¹²² Furthermore, their dependence on foreign literature, regular academic exchange and deference to the perceived excellence of Western scholarship fosters a one-sided relationship and the continued diffusion of knowledge to the Third World. A number of former French colonies in Africa, for example, have implemented some sort of family allowance programme modelled on the French system even though family allowance programmes

¹²⁰ midgley(1984), Ibid., p. 175.

¹²¹ Ibid., pp. 175-176.

¹²² Ibid., p.178.

are generally among the last programmes to be established in most social security systems around the world.¹²³ Another example is that the Beveridge Report of 1942 inspired nationalist leaders in a number of British colonies and led to the appointment of official commissions in India and Ceylon.¹²⁴ These factors are illustrative of the power of imitation that often accompanies the diffusion of social security systems in the international setting. The constructs of imperialism and diffusion, therefore, provide insights into the development of welfare institutions in the Third World which are often more useful than the deterministic theories described earlier.¹²⁵

Another important factor and source of diffusion of social policies and practices is to be found in the activities of the international agencies such as the UN, ILO, ISSA, WHO, UNESCO and World Bank, which have played an increasingly important role, since the Second World War, in the incremental development of the social services in the Third World. Through their publications, international conferences and workshops, these organizations have been enormously influential in fostering the development of social policy in the Third World. Although they have not actively encouraged the replication of the welfare systems of any single industrial nation, their 'modern' or 'scientific' approaches to welfare have facilitated the continued transfer of inappropriate social policies to the developing countries.¹²⁶

One of the first attempts to define and measure social need in the Third World context arose out of the efforts of the United Nations to promote social planning in the Third World. In the 1950s, UN publications of economic issues made little reference to social welfare. At this time, however, the UN actively encouraged the creation of schools of social work in developing countries to train professional social workers for employment in government Ministries of Social Welfare because those on social issues were generally confined to social pathologies such as juvenile delinquency, prostitution and drug addition. Many UN missions to the Third World at the time were

¹²³ Paul Fisher(1968), "Social Security and Development Planning: Some Issues," In Everett M. Kassalow(Ed.), *Ibid.*, p. 242.

¹²⁴ Perrin, G.(1969), "Reflections on Fifty Years of Social Security," *International Labour Review*, Vol. 99. pp. 249-292.

¹²⁵ MacPherson and Midgley(1987), *Ibid.*, p. 142.

¹²⁶ *Ibid.*, p. 141.

comprised of social workers who reinforced the residual approach by equating need with social pathology.¹²⁷

Eventually, this approach attracted criticism both from within and outside the UN and in the 1960s the Economic and Social Council initiated a major reappraisal of the organisation's social welfare activities.¹²⁸ A key element in this approach was the recognition that social indicators would be needed to measure and monitor social progress. Although the UN had been interested in social welfare measurement for many years, publishing one of the first documents on the subject as long ago as 1954, it was the involvement of the UN Research Institute for Social Development (UNRISD) in Geneva, and particularly the contributions of Drewnowski (1970) and MacGanahan (1970), that fostered the levels of living conceptualization.¹²⁹

Since then, two major approaches to the definition of social planning have emerged. The first approach equates social planning with social service planning, or sectoral social planning as it is also known. Many of its proponents are professional social workers or others concerned with the provision of family and community welfare services in developing countries but they also include writers on planning in other social services ranging from health to social security. The second approach emerged in the late 1960s and early 1970s as a reaction against what was felt to be an excessively narrow emphasis on the social services in social planning and a neglect of broader social goals. There emerged what became known as the unified approach; the UN International Development Strategy of 1970 spelled this out:

"The ultimate objective of development must be to bring about sustained improvement in the well-being of the individual and bestow benefits on all. If undue privileges, extremes of wealth and social injustices persist, then development fails in its essential purpose... qualitative and structural changes in the society must go hand in hand with rapid economic growth, and existing disparities--- regional, sectoral and social---should be sustainially reduced.

¹²⁷ Margaret Hardiman and James Midgley (1982), The Social Dimensions of Development: Social Policy and Planning in the Third World, Chichester: Wiley. p. 19.

¹²⁸ Ibid., p. 20.

¹²⁹ Ibid., p. 20.

These objectives are both determining factors and end results of development; they should therefore be viewed as integrated parts of the same dynamic process, and would require a unified approach.”¹³⁰

These proponents of the unified approach did not identify a specific professional role or organizational responsibility for social planners as distinct from economic planners but instead treated social planning as socially committed economic planning.¹³¹ The views of the advocates of the unified approach were subsequently endorsed by the Economic and Social Council and the General Assembly in its resolution “The Unified Approach to Economic and Social Planning in National Development” of 11th of December, 1970.

By the end of the 1970s, however, the UN found that ‘there is not evidence that the real trends of economic growth and social change have corresponded any better than previously to the ultimate objective.’¹³² Alternatively, therefore, considerable attention was paid to the ‘basic needs’ approach. The essential element in the basic needs strategy is that the needs of the poor must become the core of development policies. Among all the arguments regarding the feasibility of such a strategy, perhaps the most crucial issue is that of demands redistribution.¹³³

Under pressure from the UN, many Third World governments have created departments in their central planning agencies which are concerned specifically with planning the social services; similarly, policy and planning units have been established in ministries responsible for social security.

To summarise, a body of literature which notes the impact of policy diffusion on social security policy development has emerged. While this approach has played a less important and extensive role in the field than the

¹³⁰ United Nations(1979), Social Development and the International Development Strategy, Geneva: United Nations Research Institute for Social Development. p. 2.

¹³¹ Hardiman and Midgley(1982), Ibid., p.20.

¹³² United Nations(1979), Ibid., p. 3.

¹³³ Stewart MacPherson(1982), Social Policy in the Third World: The Social Dilemmas of Underdevelopment, Brighton: Harvester. p. 13.

socio-economic interpretation, it has succeeded in calling our attention to an important second variable.

2.5.2. Evaluation.

The diffusion approach to social security policy development provides a very useful corrective to the narrow insularity of the nation state focus. By pointing out the fact that the social welfare policy development of a nation can be notably influenced by extant policies in other countries and by the advocacy activities of international organizations, this approach adds a critical dimension to our analysis. Yet there are several problems with this interpretation.

First, the problem of diffusion theory lies in its theoretical underpinning about the functions of social welfare services on the one hand, and in its assumption of the nature of social development on the other. The function of the social welfare service is defined as a paternalistic mechanism for the well-being of the whole society which appears to be incomplete. According to this approach, however, the development process of social change is taken as a one in which the less developed societies have to follow suit with the advanced ones. This perspective is rather attenuated. Since an empirical study of the development of social welfare services in Western European countries has led to the conclusion that a diffusion process alone can not account for the establishment of national social security programmes in these countries. Although diffusion processes may have influenced the course of national decision making, the example set by a pioneer country does not provide sufficient incentive to adopt social insurance schemes independent of internal socio-economic problems and potential mobilisation. Therefore, an explanation of social welfare development merely based on a diffusion theory is bound to be incomplete and inadequate.¹³⁴

¹³⁴ Peter Flora and Jens Alber(1981), "Modernization, Democratization, and the Development of Welfare States in Western Europe," In Peter Flora and Arnold J. Heidenheimer(Eds), The Development of Welfare States in Europe and America, New Brunswick: Transaction Books. p. 63.

The second problem is that, as Midgley argues,¹³⁵ many analysts overemphasize international influences which have been a significant factor in the growth of social security. In spite of the emphasis given to diffusion, it must be recognized that endogenous factors played an obvious role in the development of statutory welfare in the developing countries both in colonial and more recent times. Some social services which were introduced in the developing countries by the colonial authorities were not replications of metropolitan practices but innovations which were thought to be appropriate to colonial conditions. It is also the case that events within the developing countries often provided the initial stimulus for the creation of modern welfare provisions which set the process of diffusion into the nation.

The third problem is that, according to the neo-Marxian dependency school, diffusion was not a neutral or benevolent process but one which subverted local culture and national confidence and resulted in the imposition of oppressive and alien institutions. Therefore, diffusion is part of a more extensive and fundamental problem of dependency in the modern world system. Within this system, following centuries of foreign domination, the developing countries occupy comparatively inferior and less powerful positions than those of the industrial nations. In this context, diffusion does not amount to a considered transaction between equals in which the social policy makers of the Third World discerningly select those elements of the social services of the industrial countries which are suited to their needs. Although there are exceptions, it has been a largely one-sided process resulting in the creation of inappropriate social welfare institutions which are perpetuated today by pressures of domestic social demands and entrenched interests.

Fourthly, in relation to the third, a persistent problem exists in much of the work on the role of international organisations. In several works discussing these entities, advocacy appears to outrank analysis. In their hopes that international organizations may become vital authorities and pace setters in the field of social security, several authors tend to argue for the importance of these international actors without clearly analyzing their direct influence upon legislation and the implementation of social security policies. This

¹³⁵ Midgley(1984), *Ibid.*, p. 181.

orientation can impede a realistic understanding of the actual role international organizations have had in policy diffusion.

Furthermore, since most of their personnel and expert advisors were recruited from the industrialised countries, and their recommendations were based on their own experiences, the advocacy groups will misinterpret the Third World reality and result in the creation of inappropriate social welfare programmes.

Finally, in this study of the formation and evolution of social security policy in Korea, the diffusion approach to social security policy development will play a notable role. Several Korean analysts attached great importance to the diffusive influence. In fact, the Korean social security policy development was influenced by some foreign advisors in the international organisations and foreign social security programmes, especially Japanese schemes. In this research, therefore, the discussion of the diffusive influence will note those characteristics and connections of social security policy which have facilitated the adoption and development of a Korean system. The high international visibility of the policy, as well as its progressive image and accepted legitimacy, will be noted. Likewise, attention will be given to the influence of international organisations in fostering certain models for policy development.

2.6. Conclusion.

In this chapter, we have reviewed whether the formation and expansion of social security policy in Korea can be explained through several different approaches. Four major interpretations have been advanced at one time or another, and each explanation can alert us to the possible importance in the historical record of the Korean case. In reality, of course, each approach carries within itself a number of contradictions and alternatives. They do not have equal explanatory significance, nor are their explanatory capabilities consistent through different phases of policy development. We agree, therefore, that to search for a single approach is less useful than adopting a more eclectic approach which draws on the strengths of different theories.

As Alford has noted,¹³⁶ the difficulty with single bodies of theory, or single paradigms, is that “each paradigm has a tendency to claim more explanatory power than it possess and to extend the domain of its concepts to answer those questions it is actually unable to deal with.”

¹³⁶ Alford, R.(1975), “Paradigms of Relations between State and Society,” In Lindberg, L.N., Alford, R., Offe, C.(Eds.), Stress and Contradictions in Modern Capitalism, Lexington, Mass.: Lexington Books. p. 152.

Chapter 3. Korean National Characteristics and the Development of the Social Security Policy.

3.1. A Point of Discussion.

In the previous chapter, we examined four key approaches to the study of social security policy development. It was designed to test whether the modernisation process would lead to the emergence of social security policy either as a response to structural-functional differentiation or as a pre-emptive policy to contain class conflict or social unrest. In other words, the emergence of modern social welfare is seen as a dynamic development process whereby a social security system is established within the constraints of social, economic, political and diffusion factors in the course of social change. Since social change is multi-causal, no single factor can be responsible for the transformation of social structure. Moreover, in terms of the dual nature of social reality, the process of social change and the rise of modern social security have to be interpreted from both objective and subjective perspectives.

In the meantime, it has been expounded in the previous chapter that the social security policy development in the developing countries as a whole has appeared different from that in the developed ones. It means that in confronting social problems, the same solutions may not be applicable for every country, and the consequences may not be the same for every country. By the same token, the concert of four approaches needs to be recognised in the Korean situation because various specific cultural and historical factors form the unique social situation in Korea. Historical experience and dominant cultural values are embedded in individual lives, prescribing patterns of interactions among individual, family, community, and nation. Those factors and the resulting situations might not have existed or might not be similar to those in the Western experience of social security policy development. Thus, an understanding of national characteristics is signified.

Following this, we turn to an assessment of the general utility and applicability of these approaches to the analysis of Korean social security policy development prior to the establishment of the National Welfare

Pension(hereafter NWP) programme of 1973 which is one of our main research projects. Before embarking on a detailed social security policy development, therefore, it is essential to have a brief outline of Korea's historical development, and to look into the factors related to the modernisation process, such as the traditional culture and social structure, formation of values and ideologies, political organisation, and national development strategies in relation to the social security development. This chapter, therefore, will examine the development of social security policy development in Korean society with the four factors found in the industrialisation process as well as the variants derived from the historical and cultural impacts of the society. Understanding both the determinants and the variants will give a sense of the pattern and direction of social security development in Korean society, which emerged out of a new social context.

This chapter is divided into five sections.

Following the introduction, in the second section, we will examine the inherent social characteristics. In particular, we will focus on the traditional social values and structures, and the family structure in Korean society, which is under review, and then, we will look into the function and changes of these characteristics in the process of industrialisation and urbanisation.

The third section is a brief illustration of the historical development of the Korean society. For this purpose, we will divide the process of historical events into four stages: the legacy of colonisation(1910-1945), the American Military Regime(1945-1948), the First Republic(1948-1960) and the Korean War(1950-1953), and the Third Republic(1963-1972). Special attention will be paid to its national development policy and political characteristics during this period. As for the national development policy, like many other developing countries, the governing leadership in Korea established national development planning to utilise resources better from 1962. The final result of planning is most often a formal plan which shows specific courses of action necessary to achieve specific results. Social security policy is usually incorporated as an aspect of these national development plans because, as in a developing country, the Korean government has been continuously faced with the problem of the allocation of scarce resources for overall development, and, as a result, the Korean government can not afford to separate social security policy from other public policies. Therefore, this

section will describe the national planning system, the routine policy-making mechanism, the characteristics of economic development, and the result of economic development during the period concerned. As for the political characteristics in Korea, we will focus on the relation between politics and planning. By definition, politics and planning have a close relationship to one another. Although numerous authors have put forth various interpretations,¹ politics is commonly defined as an authoritative allocation of resource for a society. Since the two are so closely related, the study of social security policy development usually necessitates a study of the political situation which generated the planning effort. In addition, the underlying assumption of the pluralist theory in relation to social security policy development indicates the significant role of pressure groups and the increase in the political pressure groups with their dynamic impact on the emergence of state social policy. Therefore, we will also examine the development of pressure groups in Korea.

In the section four, we will describe briefly the national income distribution prior to the establishment of the NWP programme which was directly or indirectly related to the development of social security provisions.

In the final section, we will examine the impact of national characteristics on the development of the Korean social security programmes prior to the establishment of the NWP scheme.

3.2. Confucian Political Culture and Social Policy.

3.2.1. The Confucian Ethic.

Korea's cultural heritage and traditional values and beliefs, which are strikingly different from the Western countries in many important ways, have a great impact on the development of social security policy. To understand social policy development in Korea, therefore, it is important to identify Korean culture and the value placed on the nature of man and society, and hence to examine the way this culture and those values are applied to the social problems.

¹ See the discussion of definition in David Easton(1953), The Political System, New York: Knopf., p. 53 and pp. 128-130.

Perhaps the most significant culture that has influenced Korean values and their beliefs about social policy has been Confucianism, particularly, the Neo-Confucianism. The Neo-Confucian doctrine of the Chinese philosopher Zhu Xi(1130-1200), which was first introduced into Korea during the late years of the Koryo dynasty(932-1392) and which the rulers of the Yi dynasty(1392-1910) adopted as their state ideology.

Neo-Confucianism combined the social ethics of the classical Chinese philosophers Confucius(551-479 B.C.) and Mencius(372-289 B.C.) with Taoist and Buddhist metaphysics and had as one of its basic assumptions the idea that the rules and practices of the ideal human association are an extension of the immutable laws of the universe.² The Confucian tradition valued external order and hierarchy within the society, while at the same time emphasizing the collective aspect of the social order. The Confucian cultural ethics are very strong even today, being extremely important in the understanding of the roots and philosophical foundation of social welfare, and provide very an important basis for the process of the development of social security policy in Korea. However, the concern in this section is not in the first instance with the cultural systems, but with the cultural influence on the development of social security policy.

Hierarchy and authority are the heart of Confucian ethics and represent a vertical order, not horizontal. According to Neo-Confucianism, society was defined in terms of the "Five Relationships"(o ryun), formulated by classical Chinese thinkers such as Mencius and subsequently sanctified by the Neo-Confucian metaphysicians: "between father and son, there should be affection; between ruler and minister, there which should be righteousness; between husband and wife, there should be attention to their separate functions; between old and young, there should be a proper order; and between friends, there should be faithfulness."

Out of the five traditional relationships, only the last was a relationship between equals; the others were based on authority and subordination. The fifth, relations between friends, is based on equality, but Korean Neo-Confucianism cautiously restrains it by establishing age and familial limits.

² Frederica M. Bunge(1982), South Korea, A Country Study, Washington D.C.: The American University. p. 65.

The authority keeps the good society that means harmony, universal and uninterrupted stability, and the order that can be seen in a past utopia. To govern a harmonious society, a monarch rules from the top of the socio-political hierarchy. According to Wright, the implicit values in Confucian politics are those of harmony, stability, and hierarchy based on absolute authority of a well-ordered hierarchy; the Ultimate Li(Supreme Ultimate) in politics came by the effect of a benevolent ruler with the assistance of group elites in an ideal form of aristocratic administration.³

Under the Confucian tradition, political culture can be characterized as a hierarchical view of political life--authoritarianism-- on the part of the ruling elites and a corresponding subordination on the part of the ruled. Hierarchical subordinating is the heart of Confucian politics. The vertical order preserved the good society (or highest good) which meant a harmonious, universal, and uninterrupted society.⁴ The politics of Confucian harmony aimed at political stability through the governing of changless ruling elites and not through the conflicting balance and the struggle of divergent dialectical forces in search of an ever-changing societal synthesis. On the Confucian political ideology, therefore, the public opinion of the masses had nothing to do with policy making or with the administration of public affairs. Mass political behaviour had long been executed toward elite dominance and control of hierarchical institutions without popular participation. Mass sentiments are more manipulated by elites, rather than elite values being influenced by the sentiments of masses. For the most part, communication between elites and masses flows downward. It never occurred to the Korean ruling elites, given their Confucian perspective, that a stable policy might be based on the participation of divergent/pluralistic forces of the society as a whole because the masses were assumed to be incapable of anything but servile followership. Without the participation of the masses, the ruling elites monopolized the power of policy-making, and became consolidatory force in a highly centralised aristocratic bureaucracy.⁵

³ Arthur F. Wright(1962), "Values, Roles, and Personalities," In Arthur F. Wright and Denis Twitchett(Eds.), Confucian Personalities, Stanford: Stanford University Press. p. 6.

⁴ Bun-Woong Kim(1982), "Confucianism and Administrative Development Interventionism," In Bun-Woong Kim and Wha-Joon Rho(Eds.), Ibid., pp. 135-136.

⁵ Ibid., p. 137.

Confucianism's preoccupation with setting everything, and especially human relations into a universal and 'rational' order produced a situation where persons became isolated from each other by a labyrinth of formalised positions and attitudes. The ruler-ruled relation was, therefore, one of impersonal hostility. The agents of the central government made little effort to ingratiate themselves to the people. Rather, their attitude was that of a superior class whose ambitions were not to be questioned or hindered by the people. Throughout traditional Korean society, from the royal palace and central government offices in Seoul to the humblest household in the provinces, the themes of hierarchy and inequality have been pervasive. There was no concept of privacy, self-determination, or the rights of the individual. In sum, the effect of Confucianism on the popular psychology of the Korean people can be characterised as follows: (1). hierarchical view of life; (2). authoritarianism on the part of ruling class; (3). a corresponding 'submissiveness' on the part of the ruled; (4). a 'face/or status-oriented' consciousness; (5). the well-ordered family.⁶

3.2.2. Social and Family Structure.

A. Social Structure.

Korea never developed a system of feudalism even though there were tendencies in that direction prior to the establishment of a Yi dynasty in 1392. The Yi dynasty which was founded in that year quickly eliminated all retainers and military groups of provincial officials or nobility. All political power was concentrated in the hands of the central government at the capital in Seoul. The Yi dynasty of Korea, which ruled for 520 years, was a monolithic and centralised authority.

By the time of the 18th and 19th centuries the dynasty had developed a socio-economic system that consisted of four main strata. These were the scholar-officials, collectively referred to as the Yangban; the Chungin, technicians and administrators subordinate to the Yangban; the Commoners or Sangmin, a large group composed of farmers, craftsmen, and merchants;

⁶ Tae-Rim Yoon(1970), The Mental Structure of Korean People, Seoul: Hyunamsa. pp. 125-268.
In Korean.

and the Chonmin or 'base people', a pariah class composed of slaves, prostitutes, butchers, convicts, and other social outcasts.

The Yangban were the political, social, and cultural elite and had no competitors for the highest positions in Korean society. Their authority was based on their complete identification with Neo-Confucian orthodoxy. In the strictest sense of the term, Yangban referred to government officials or office-holders who had passed the civil service examinations that tested knowledge of the Confucian classics and their Neo-Confucian interpretations.

The social structure was designed, at least in theory, to reflect the four-stratum division of society envisioned by Confucian doctrine: at the top of society there were the literate and educated aristocrats(sa); next there were the farmers(nong), the only really productive members of society; next came the workers in industry(kong) who, according to Confucian thought, really add nothing to their products, merely change their shapes. Therefore, people in their sector provide less service to society than farmers do and are accordingly a lower-grade power; fourth and almost at the bottom of society were the merchants(sang) whose contributions to society were considered to amount to nothing. The only exchanged one article for another in order to profit for themselves. At the bottom, and actually off the list as such, were a variety of outcaste jobs such as butchers, workers with leather and executioners.

In the context of the wider society, a pyramid exists consisting of a well-defined elite of scholar-officials versed in Neo-Confucian orthodoxy, dominating--in the proper, preordained sequence--the lower strata of farmers, craftsman, and merchants. This was legitimised by the traditional ethical distinction between the character of the 'gentleman' and that of the 'small man', a central theme in the writings of Confucius and Mencius.

Ideally, in a Confucian state there should be no conflict since each person and group knows his status and pays homage to the person above him. Yi dynasty Korea, however, never attained such a perfection of Confucianism that conflict was eliminated.

B. Family Structure in Korea.

(1). Traditional Korean Concept of Family.

One of the characteristics of Korean society, in earlier days, before the country was opened to foreign influences, as well as in modern times, is the strong bond between the members of one family, a bond which endures as long as one lives. In a sense, it even continues unbroken beyond the individuals' lives and through the generations.⁷ The family is seen as the most basic social system. From a functionalist point of view, the family constitutes the fundamental unit in integrating its individual members into a cohesive structure performing social, political, and economic activities. However, the concept of family in Korea is perceived quite differently from that of Western society. In the Western society, family is seen as composed of unique individuals and emphasises individualism, equalitarianism, and rationalism. But in the Korean society, the family is seen as composed of members who are bound together by obedience, inequality and authority. It will, therefore, prove to be an appropriate alternative to focus on the family itself in lieu of the society as a whole, and further to examine the functions inherent in the Korean family and its changes, in particular with association to industrialisation and urbanisation.

According to Confucian thought, the family is the basic system of society.⁸ Out of the five traditional Confucian relationships, three are family relationships: father-son, man-woman and elder-younger. The remaining two, though not family relationship, can be conceived of in terms of the family. The person in the position of superiority, that is, the father, husband, and elder, has the right and duty to make decisions for and to take care of the inferior. The inferior, son, wife, or younger, has the duty to obey and be loyal to the superior.⁹

⁷ B.C.A. Walraven(1989), "Symbolic Expression of Family Cohesion in Korean Tradition," Korea Journal, Vol. 29. No. 3. p. 4.

⁸ Jai-Seuk Choi(1982), A Study of Korean Family, Seoul:Iljisa. In Korean.

⁹ Thomas Hosuk Kang(1971), "The Making of Confucian Societies in Tokagawa Japan and Yi Korea: A Comparative Analysis of the Behaviour Patterns in Accepting the Foreign Ideology, Neo-Confucianism," Unpublished Ph.D thesis, The American University. p. 62.

Among these family relationships, the relationship between father and son was considered the most important pattern since, especially in the case of the eldest son, this was the link through which the family would be perpetuated. This is because, reflecting Mencius' comment that of all unfilial acts the worst is to deprive one's parents of posterity, the most important concern for the family group was the production of a male heir who would carry on the family line and perform ancestor rituals in the household and at the graveside. The first son customarily assumed leadership of the family after his father's death and inherited his father's house and a greater portion of land than his brothers in order to be in a position to carry out the ritually prescribed obligations to the family's ancestors.

The primary social role for women, on the other hand, was the production of a male heir for their husband's families. According to the Confucian custom, once married, a woman had to leave her parents' household for good and occupy the lowest position in her husbands' family. The duty of a woman to her husband, or rather to her husband's family, as defined by the third of the Five Relationships, was absolute and inflexible. Furthermore, Yi dynasty law prohibited widows from remarrying, although a widower could.

(2). Filial Piety.

The traditional family consciousness in Korea expresses itself as the gist of "filial piety" which attaches the greatest importance to father-son relationship. The nature of the relationship between parents and child is that the parents should act toward the child with 'nurture' and the child should return it with 'filial piety and absolute obedience.'¹⁰ Thus, filial piety has been a cardinal value of traditional Korean society. Filial piety, the first of the Five Relationships, defined by Mencius as the affection between father and son, was a central concept of the ethical system. Although Mencius described it as essentially an emotional bond, it entailed a large number of reciprocal duties and responsibilities between the generations of a single family and for the most part came to be identified as an unequal relationship in which the son owed the father unquestioning obedience.¹¹ Broadly speaking, filial piety involves the principle that a son is worth existing only for his parents. There is an unconditional superior-inferior relation that exists

¹⁰ Jung-Dong Ryu(1982), "Royalty to the King and Filial Piety Based on Love," *Asian Quarterly*, Vol. 18. pp. 41-42.

¹¹ Bunge(Ed.) (1982), *Ibid.*, p. 71.

between parents and children, and, by extension, between all superiors and subordinates in society. The traditional concept of filial piety can be classified into direct and indirect filial piety.

(1). Direct filial piety involves the following---

1). Submission: you should respect your parents, not as equal beings, but by recognition of the fact that you are inferior to them. As an expression of this submission, you should do whatever you are requested to do, and take food and wear cloths they prepare for you, even if you dislike them. To do so is to manifest your sincere submission.

2). Attendance: You should always be ready to do every kind of chore for your parents, such as folding up their quilts and pads, providing them with basins of water to wash their faces and hands, and helping them when they want to move about.

3). Realising what your parents intend: It is proper for a son to realize what his parents intend and to follow what they would wish even after their death. But it is also necessary for a son to enjoy what his parents enjoy; respect what his parents respect and get along well with persons with whom his parents have good relations, even though the son himself is reluctant to do so.

4). Solemn performance of the funerals of parents: When his parents die, a son should perform the solemn funeral ceremony according to the mourning rites. He should build a serving room where the spirits of his parents may be preserved. For three years the son also should: eat only water and gruel, use a different room from his wife, avoid useless talk with others, and never seek a warm place in winter nor a shady spot in summer.

5). Solemn sacrifice for deceased parents: A son should prepare food for his deceased parents as if they were alive and still beside him. He should continue with his whole heart to observe this religious celebration according to the prescribed rules.

(2). Indirect filial piety requires observance of the following precepts:

- 1). Do not exhibit extraordinary feeling of love for your wife.
- 2). Have an heir as the successor of your family.
- 3). Be loyal to your king.
- 4). Get along well with your friends.
- 5). Perform every action at the proper moment as a manifestation of filial piety.

No one can carry out filial piety to an excessive degree; it is boundless. The exercise of filial piety is also unconditional. A son should devote himself totally to his obligation of filial piety, whether or not his parents carry out their responsibilities. Filial piety is a value in itself and absolute obedience and submission is always equal to love. Any violation of filial piety is not merely a moral defect, but also a crime.

(3). Traditional Kinship Organisation.

Early description of traditional Korean social structure cites the overwhelmingly familial character of social relations. Not only did formal ties of kinship determine social behaviour and values between related individuals, but the structure of these relations and the Confucianist ideology that supported them were used as a model for social relations throughout the entire society as well. The crucial importance of the structure and ideology of a traditional kinship organisation has proved highly resistant to change. The family is a paternal system, transcending time, inherited from the progenitor of the external family or clan and linked to all of its offspring. In this regard, family and clan are rarely differentiated in Korean culture. The individual Korean, therefore, is part of a complex clan and kinship organisation that extends beyond the nuclear family unit and exists on four levels.

At the lowest level the basic unit is the household, consisting of husband and wife, their children and , if the husband were the eldest son in his family, his parents as well. The eldest son's household, the stem family, was known as the 'big house'(kun jip), while that of each of the younger sons, a branch family containing husband, wife, and children only, was known as the 'little house'(jakunjip). It was through the stem family of the eldest son that the main line of descent was traced from generation to generation, and the weight of tradition bore most heavily on him and his wife.

The second level of kinship is the 'mourning group'(dongnae), which consisted of all those descendants of a common patri-lineal ancestor up to four generations back. The central purpose of this unit is ancestor worship.

The third level of kinship organisation is the lineage(pa). The lineage is traditionally not only responsible for ancestor worship, but also for the aid of poor or distressed lineage members, the education of children at schools

maintained by the Pa, and the supervision of the behaviour of younger lineage members. Because most villagers were members of the same lineage in traditional times, the Pa performed many of the social functions on the local level that are now performed by public schools, police, and social welfare agencies.

The fourth and most encompassing kinship group is the clan or more accurately, the surname-origin group(dongsung dongbon). In many cases, its only real function was to define the limits of available marriage partners. Because of a very strict rule of exogamy, people from the same surname could not marry even though they might only be very distantly related.

These four levels are tied together by the Confucian principle of filial piety, the practice of ancestor-worship, and the law of exogamy, which distinguished relatives from non-relatives in the most precise way. For example, village leaders are lineage elders and self-help organisations such as Kye(credit associations formed by small numbers of persons for various objectives), Ture and Pumasi(communal aid institutions formed during the harvest time) are usually limited to members of the same Pa or lineage. Under the circumstances, the individual is required to behave as a representative of a certain family or clan rather than as a unique individual.

3.2.3. The Passing of the Traditional Social Structure.

Several aspects of the Confucian ethic have been discussed, providing a sense of what values and attitudes have molded social behaviour. The question to be addressed now is to what extent do the aspects of the Confucian ethic discussed above continue to exist in Korean society and characterize the social behaviour in this society.

During the twentieth century Koreans have seen their country become a prize in great-power rivalries, undergo thirty-six years of exploitive colonial domination, suffer a disastrous civil war, and contend with virtually continuous political upheaval. During this time Korean social patterns have undergone changes concomitant with the transformation of a society that was highly mobile, urbanising rapidly, and in many other respects experiencing an industrial revolution.

At the end of the nineteenth century Western influences began to penetrate Korean society, effecting changes in the social stratification and values of the stagnant Yi Dynasty. The victory of modernised Japan over China in the war of 1894-1895 marked the end of the traditional China-centred international order, and after the Japanese made Korea a colony in 1910, they systematically dismantled the old society on both the local and national levels. The old social strata lost their legal status: Yangban and Commoners were made equal before the law, and slavery and the category of 'base people' or Chonmin, were abolished. The civil service examinations based on Confucian subjects were discontinued, and more modern ways of selecting officials for government service were proposed. In addition, after annexation the Japanese began a comprehensive land survey in order to establish land ownership. Traditionally all land belonged to the king, who let it out in the form of grants to government offices, provided schools, scholar-officials, and other privileged subjects. Although specific parcels of land tended to remain within the same family from generation to generation, including the communal land held by lineages, there was no institution of private property in land until the Japanese confirmed individual titles of ownership during the nine-year survey. As a result of the land survey, rural society was radically transformed. Local Yangban who collaborated with the Japanese were able to hold onto their land and maintain their privileged social and economic position; those who did not were plunged into poverty. Farmers whose families had tilled the same land for generations but who could not prove ownership in a way satisfactory to the colonial authorities had their holdings confiscated. This land was either held by the government or given to influential individuals who came to constitute a new landlord class. The farmers themselves either became tenants or were forced to leave the land.

While two new classes--agricultural entrepreneurs and a rural proletariat of tenants--were growing up in the countryside, the Japanese built railroads, schools, and hospitals, and developed a modern system of administration. The new, modern sector required technically trained experts, and although the top positions were invariably occupied by Japanese, Koreans worked on the lower levels as secondary technical and administrative personnel.

During this period, Western forces also began to modify Korean traditions. The influence of Christian missionaries is thought to have had a particularly

strong impact.¹² To the early missionaries the veneration of ancestors was unacceptable and in conflict with their own religious beliefs; therefore, they directly attacked Confucianism. Because Confucianist ethics underpin the family structure, this attack was in effect an attack on basic social order. Missionaries also exercised significant influence on the reform of women's education.¹³ Conversion to Christianity encouraged women to emerge from their seclusion in the home and attend churches and schools, work outside the home, and participate with men in social affairs.

The process of change accelerated after World War II. Since then, four developments were particularly significant for Korea's social mobilisation.

The first was the land reform, which was carried out by U.S. and Korean authorities between 1945 and 1950. The institution of private property was retained in the countryside, but the American Military Government confiscated and redistributed all land held by the Japanese. After the land reform in 1950, the percentage of tenants in the farming population fell from 48.9 percent to 7 percent in 1965; the amount of land farmed by tenants fell from about 60 percent to 15 percent in the same period. A new class of independent, family proprietors was established.

The second development was the great influx of repatriates and refugees from overseas and from North Korea. Between 1945 and 1949 almost 2 million Koreans returned to South Korea from Japan, Manchuria, and other foreign countries. Moreover with the establishment of a communist state in the north, large numbers of refugees (estimated about 1.1 million) fled to the south by 1947 and were joined by about 2.1 million more during the Korean War. Most of these refugees settled in the cities--new recruits for the country's industrial labour forces.

The third development was that the Korean War itself was responsible for the continued erosion of traditional values and the increasingly fluid nature of the society. The War brought all Korean men into the armed forces, through which they were exposed to a way of life and with modern technology and the values that accompanied it.¹⁴ The War displaced large segments of the population; there was a large influx of refugees from the

¹² Nena Vreeland et.al.,(1975), Area Handbook for South Korea, 2nd Edition, Washington D.C.:The American University. p. 91.

¹³ Ibid.

¹⁴ Ibid., p. 94.

North, many of whom resettled in communities without traditional social ties and obligations.

The fourth was the economic development after the military coup in 1961. The industrial development provided much of the impetus for the promotion of values of scientific and economic rationality and technological expertise. Furthermore, by the late 1960s Korea's cities had become the focus of dynamic change as millions of people left their rural villages and the all-embracing kinship system for the cities and salaried employment in new industries and commerce. This process raised the business class and modern managers as a new elite class because it had had a low status in traditional society. Industrialisation and urbanisation had an impact on family too. Rapid industrialisation had developed occupational and regional migration which had been accompanied by family dissolution. With this family separation, the normal family pattern consistent with the progress of industrialisation has become nuclear family or conjugal family. It is assumed that the modern industrial system is usually more compatible with the conjugal family which is centred on the married couple rather than on large kinship.¹⁵ Technological revolution and business management have enhanced occupational mobility and demographic migration. Migration from rural to urban areas has broken down the extended family system of traditional society, and obliged it to move to the nuclear family system. As the nuclear family is based on the principal of equality, patriarchal dignity weakens notably. As we can see in the Table 3-1, Korea is beginning to follow the trend of nuclear family system.

Table3-1: Composition Rates of Household by Type, 1966-1975. (%)

Year	One Generation	Two Generation	Three Generation	More than Four
1966	5.7	67.7	24.0	2.6
1970	6.8	70.0	22.1	1.1
1975	13.3	69.5	16.7	0.5

Source: EPB(1985), Social Indicators in Korea.

¹⁵ William J. Goode(1980), "World Revolution and Family Patterns," In Arlene Skolnick and J.H. Skolnick(Eds.), Family in Transition, Berkeley: University of California. pp. 45-51.

Furthermore, industrialisation and urbanisation have lowered dignity for the aged, pushed the aged generation away from the society, decreased their roles and lowered traditional respect for the aged.¹⁶ These changes began to soften the rigidity of social stratification; yangban status was no longer an automatic guarantee of political power, the pressures dictating deferential behaviour on the part of commoners were eased, and patriarchal relationship has been to some extent replaced by democratic and egalitarian relationship.

As much as Korean society has changed during this period, nevertheless, it has remained deeply rooted in the traditions of the past. The centuries-old habits of social behaviour could not be legislated out of existence at a stroke; former yangban thought of themselves as adhering to a higher code of ethical behaviour than common folk and retained a strong aversion to physical labour. The economic basis of yangban superiority, particularly their hold on landownerships and wealth, remained in force, so that status as a former yangban still carried considerable weight. Even though there have been differences in forms of government, authoritarian traits have also continuously existed. In addition, the ruler-ruled relationship of traditional Korean ethics experienced little basic change and no large discontinuities in its movement. It is probably not necessary to chart the course of government relationship with the people since, during the colonial period, the Japanese and Korean governments' policies were always one of oppression and hostility. Indeed the Japanese colonial regime and the subsequent Korean rule of Rhee and Park would seem to have been quite amenable to their perpetuation. It can therefore be considered that traditional patterns of behaviour have been carried over into the modern, individual situation of Korea in the 1960s.

In particular, as far as the family is seen to be the basic unit and last resort of individual security, there is no doubt that the Korean family has still largely retained its function as the help and support system internally not only within members of a family, but within members of the same clan or lineage. At both the top and the bottom of Korean society standards other than those of strict merit are apt to be used in the distribution of favour and benefits.

¹⁶ Sun-Nam Choi(1984), Modern Society and Welfare of the Aged, Seoul: Hongikjeh. pp. 141-144.
In Korean.

Although the stagnation of the Yi Dynasty is not likely to return to the Republic of Korea, the primacy of the kinship organisation that was established then is likely to retain its potency for some time to come.

Finally, the following two examples have shown that the convergent development of family structure towards stem or nuclear type does not necessarily bring out the same trend in the extended family values which rest upon collectivism and move towards individualism. The first example is that, although family life has changed radically in the transition from the rural village to the large city, urban people are not disconnected or atomized. During New Year and Chusok(the Autumn Harvest Festival), the trains and highways are jammed with people travelling to visit living relatives and graveyards in other parts of the country.¹⁷ Furthermore, the urban individual, whether he is head of a large conglomerate or a newly arrived migrant from the countryside, is apt to deal with the world of strangers outside his doorstep by relying on a well-established network of kinship or quasi-kinship connections for assistance. The second example is that, although many women work outside the house, the dominant conception particularly for the middle class, is that the husband is the 'outside person'--the one whose employment provides the major source of economic support--and the wife is the 'inside person' whose chief responsibility is the maintenance of the household. Probably the most important responsibility of the woman is the management of her children's education. Given the extreme importance of education for social status and economic advancement, the wife must see that the children keep up in their studies. If they fail in school, it is a great loss of face not only for her but for her husband and his entire family. As a consequence, the tendency remains for working women to leave the labour force when they get married.

As we can see in these two examples, therefore, it can be concluded that the contemporary family structure in industrialised Korea has moved in favour of a stem or nuclear family but still with extended family values and ideals.

¹⁷ The year of 1991 case, the government estimated that about 44 percent of population(20 millions) would traveling during the Chusok holidays(21-23, September). To take a measure to meet the traffic congestion, therefore, the Ministry of Transportation held special meeting under the superintendence of the Vice-Minister on 13th of September, 1991. See, Hankuk Ilbo(European Edition), 14 September, 1991. p. 14.

3.2.4. The Impact on the Social Security Policy Development.

Confucians assume that man can not live alone because he is a social being by nature and must live among other men; men group together under a bond; and men act in structured situations according to certain principles and expectations. Confucian's basic interests and concerns are with human ties and interactions and with reciprocal relationships with men among men. This Confucian culture reflects on the reciprocal altruism and many Koreans continue to maintain the old tradition of ritual and civility. One of the most outstanding examples of mutual support in Korean society is the Hyangyak, a village code to establish a system of mutual support. The spirit of the Hyangyak is embodied in four objectives that emphasize: mutual encouragement of morality, mutual supervision of wrong conduct, mutual decorum in social relationships, and mutual succor in time of disaster or hardship.¹⁸ Through this mechanism, community members help each other in the promotion of business, the correction of mistakes, the furtherance of civic pride and community problem solving.

Kye, a mutual financial association, is also an outstanding example of reciprocal altruism in Korea. Everyone who becomes a member of the association has equal rights and obligations, regardless of their age or their social status. A Kye is a kind of communal benefit. Every member of a Kye contributes a fixed amount at each monthly meeting over a period of time. The most popular Kye is the mutual financing association for funerals. When a parent of one of the members dies, the members of the association are obliged to make donations of a certain amount of money.

Regardless of this culture of mutual support programmes, the traditional characteristics, such as the Confucian ideology, the authoritarian form of government and the family system, impeded the development of a modern social security system. In this context of political culture, there has been no direct channel through which the masses can influence the ruling group to meet their needs. In the given situation, the authority did neither realise the importance of social security policy nor consider such policy in government decision-making. Changes and innovations in social security institutions came about as a result of redefinitions by elites of their own values. The ruling elites use social policy as a effective instrument for social control.

¹⁸ Ki-Baik Lee(1984), A New History of Korea, Cambridge, M.A.: Harvard University Press, p. 207.

During periods of political stability, when pressures for development of social security programmes occur, the ruling elites, acting on the basis of Confucian political culture of subordination of the ruled and authoritarianism of the ruler, purposely retain and reinforce traditional values by the introduction of the official ideology of loyalty to the nation, to preserve the *status quo*. Changes in social policy occurs when events threaten the political system, and political elites introduce new social security systems or expand the scope of current social security systems. This limited government role results from the fact that in the monarchical system of the dynasties, assertion of political and economic equity by the populace inconceivable, and the people did not challenge the situation; so the dispensation of equal justice through litigation according to law was not expected or called for.¹⁹

The important point in relation to the family is that, whatever direction individual relations in Korea might take, most Koreans have been heavily dependent on the family structure for their survival in Korea. Those in need in Korea were traditionally supported by the extended family or the neighbourhood through mutual concessions. The recent changes, then, might be that the lagged effect of changes in the family during this period will have an impact on the creation and direction of the welfare system in Korea. Even though urbanisation and modernisation has eroded most personal support systems, however, government has minimally alleviated the problems of the acute poverty. Social services have been seen to provide a minimum standard. The strategy for social security policy development mentioned by the MOHSA suggest that Korea, as a developing country, when dealing with social security, should try to maintain spiritual aspects by promoting the traditional social values and cultivating the merits of the traditional family system to supplement the social security and welfare system.²⁰ Furthermore, the Korean government promulgated a national charter for old people on 8th of May, 1982, which is based on a belief that the concept of filial piety is still a strong influence on parent-child relations, and on the manner in which society in general views old people. Based on this belief, national social and economic policy is being directed toward

¹⁹ Se-Jin Kim(1972), "National Government and Politics in South Korea," In Se-Jin Kim and Chang-Hyun Cho(Eds.), Government and Politics of Korea, Silver Spring, Maryland: The Research Institute on Korea's Affairs.

²⁰The Bureau of Social Welfare, MOHSA(1979), Ibid., p. 30.

reaffirming the responsibilities of families to care for old people rather than emphasising policies to foster the social and economic independence of old people. The amended Old-Age Welfare Law on 30 th of December, 1989, was also based on the old notion that a sound family atmosphere centred around the elder members, and a filial piety to parents, while pursuing welfare policy as a prime objective of the nation.²¹ In that sense, the basic principle of the law was "...to give more priority on assisting those elderly people living with their families than those who are being accommodated in welfare facilities by raising the amount of the old parent supporting allowance and the exemption level of inheritance tax, giving higher priority in purchasing new apartments, and paying old-age allowance."²² The law expected that such measures would promote the atmosphere of support and respect for the aged. The social security system in Korea, therefore, has not developed along with changes in the family system, but concomitantly with the economic growth and the general trend of social change in Korea.²³ In conclusion, the underdevelopment of social security policy can be explained by traditional social values and customs.

3.3. Korean Social Policy Development in Historical Context.

Throughout much of the 2,200 years of their recorded history, Koreans were able to retain their status as the 'hermit kingdom' and a strong sense of their racial, linguistic, and cultural homogeneity until 1876 when, succumbing to Japanese demands, Korea was forced to open its doors to the outside world. Since this time, Korea has been beset by successive calamitous events which have brought destruction and profound distress to all portions of society. During the period of the world-wide expansion of Western imperial countries, Korea or Yi Dynasty was incorporated into the capitalist world system as a peripheral country. Korean history in the following 40 years was to be the process through which Japan made Korea a colony despite the strong resistance of the Korean people. Korea was

²¹ Young-Ki Ahn(1990), "A Study on Amended Old-Age Welfare Law," The Korean Journal of Policy Studies, Vol. 5. p. 105.

²² Ibid., p. 126.

²³ The Bureau of Social Welfare, MOHSA(1979), "Changing Family Patterns and Social Security Protection: The Case of Korea," International Social Security Review, Vol. 32, No. 1. p. 27.

forcibly deprived of its sovereign rights and its people were subjected to Japanese colonialism from 22nd of August, 1910, to 15th of August, 1945. This was a period in which the economic and other benefits of Japanese rule have to be weighed against the oppression and exploitation that characterised colonial status. When Japan was defeated in World War II, Korea emerged as a divided country, a victim of the new cold war. The North became a pawn of Soviet power, the South of American power. The South was run by an American Military Government(AMG) from 1945 to 1948, when the first national elections were held and an independent Korean government, the Republic of Korea, was established. The Korean War began in June 1950, less than two years later. Battles raged up and down most of the peninsula until the front stabilised around the 38th parallel in 1951 and a truce was signed in July 1953.

3.1.1. Korea Under Japanese Rule: 1910-1945.

(A). Japan's Colonial Policy in Korea.

There were three periods of Japanese colonial rule: the first was the period of subjection, suppression and appropriation that lasted until 1919; the second was the period of 'accommodation and appeasement' between 1920 and 1931, which brought about some relaxation of colonial control and allowed the educational and cultural development of Korea; and the third was the period of Japanisation and industrial development from 1931 to August 1945.²⁴

During the first period, a variety of momentous changes took place in Korea. These changes to a large degree brought about the end of dynasties which was Korea's education and culture, as well as economic and social system. Japan governed Korea under a regency-general and subsequently under a governor-general directly subordinate to Japanese premiers. The nature of the Japanese government can be surmised by the fact that all of the governor-generals were high-ranking Japanese military officers. Until 1921 they were not allowed to publish their own newspapers or organise political or intellectual groups.

²⁴ *Ibid.*, p. 224.

Nationalist sentiments gave rise to a Korean student demonstration in Japan, and on 1st of March, 1919, to a Proclamation of Independence by a small group of leaders in Seoul. With the consolidation of what became known as the 'March The First Movement', street demonstrations led by religious groups and spontaneous demonstrators erupted throughout the country in protest against Japanese rule. The 'March The First Movement' brought a change in Japanese administrative policy in Korea from military administration to one based on a so-called cultural policy. The main contents of the cultural policy were the change from military police to civil police, increased employment and a better treatment of Koreans, and permission for Koreans to have limited freedom of press and organisation.

During the first two periods, Japan's initial policy was to increase agricultural production in Korea to meet Japan's growing need for rice.²⁵ In order to build the economic base for military rule over Korea, the Japanese carried out a large scale land survey from 1910 to 1918. The land survey established the capitalist social relations by available the land as the major means of production at that time. The main results of the land survey were that one-third of the most productive land was in the hands of the Japanese and over 300,000 (eventually nearly one million) Japanese had entered Korea in pursuit of economic advantages.²⁶ An army of displaced Korean farmers was forced, under the most arduous circumstances, to wander aimlessly or to resettle, many of them in Manchuria and Siberia, where, subsequently, the politically active among them became attached to revolutionary communist politics; for this reason, Korean communism must be judged to have been initiated in Japan.²⁷

Japan had also begun to build large-scale industries in Korea. Under the protective Company Law issued in December, 1910 (to be effective on 1st of January, 1911 and expire in 1920), however, the Japanese seized opportunities to dominate commercial and industrial fields. The law required that all commercial and industrial companies in Korea have Japanese either as co-investors or as managerial staff, in order to obtain government licences. Japanese owned firms were not subjected to this law.

²⁵ At that time, Japan had a difficulty of obtaining rice, and, in the end, the Rice Riot was raised in 1917.

²⁶ L.L. Wade and B.S. Kim (1978), *Ibid.*, p. 10.

²⁷ *Ibid.*,

However, the ascendancy of the military in Japanese politics in the 1930s changed the tide again. Particularly after 1937, when Japan launched its expansionist war against China, the colonial government decided on a policy of mobilising the entire country for the cause of the war. Not only was the economy recognised as being on a war footing, but the Koreans were to be totally assimilated as Japanese. The government also began to enlist Korean youth into the Japanese army as volunteers in 1938, and then as conscripts in 1943. During the third period, Japan's political and administrative control in Korea remained firm once Korea had become formally a part of the Japanese empire.²⁸

To be sure, the 36 years of Japanese rule significantly influenced Korean culture and society, although only limited segments of Korean life were affected. Japanese influence was most evident in the administrative and legal fields.²⁹ Substantial inflows of Japanese administrators and their systems and capital brought changes to Korea's administrative, economic, and legal structures. The legal doctrine, as introduced and put into effect in Korea during the Japanese colonial administration, however, was used as a mechanism of control. It was not a liberating or protective device. Such a strong legalistic bent not only had evidence in administrative practice in the Japanese era but also in university teaching in that period. And this basic orientation was retained in Korean bureaucracy as well as in academe in the post-liberation period.³⁰ The impact of the Japanese was limited, however, by the restrictions placed on Korean participation in economic and political planning and management, and the customs and structures of Korean society as a whole were not deeply affected.³¹

²⁸ Han-Kyo Kim(1973), "The Japanese Colonial Administration in Korea: An Overview," In Andrew C. Nahm(Ed.), Korea Under Japanese Colonial Rule: Studies of the Policy and Techniques of Japanese Colonialism, West Michigan University, The Centre for Korean Studies. p. 43.

²⁹ Parvez Hasan(1976), Korea: Problems and Issues in a Rapidly Growing Economy, Baltimore: The Johns Hopkins University Press. p. 26.

³⁰ Hahn-Been Lee and Sin-Taek Kang(1982), "Development of the Study of Public Administration in Korea," In Bun-Woong Kim and Wha-Joon Rho(Eds.), Korean Public Bureaucracy, Seoul: Kobo Publishing Inc., p. 19.

³¹ Hasan(1976), Ibid., p. 26.

(B). Development of Social Security Policy During the Japanese Rule.

In accordance with the diffusion approach, which we have seen in the Second Chapter, the development of a social security system in the Third World is often a product of the colonial heritage. Although indigenous systems of welfare existed in many Third World societies before the advent of European rule, modern statutory social services in the Third World are not derived from these provisions but from European conceptions of welfare which were introduced during colonial time.³² Based on this theory, even if some doubtful question arose, European colonialists made a great contribution to the development of social security policy in their colonies. At this point, our question is "does this approach apply to all cases?" In other words, was Japan, a non-European colonialists, also conducive to the development of social security policy in her own colonies, especially in Korea? To solve this question, first, we will explain briefly the Japanese social security system during this period, and then, we will examine how far the Japanese colonial authority applied these schemes to the Korean society.

During this period, Japan had a relatively well-developed social security system. The Health Insurance Law, which is the first Japanese social insurance scheme, was promulgated in April 1922, and enforced in 1927. The law covered most of the workers. The National Health Insurance, which was enacted in 1937 and enforced in 1938, covered primarily the farming population, and organised as a voluntary establishment, not by compulsory requirement, provided only 50 percent of medical expenses either in cash or services and was certainly not adequate. The Welfare(Employees) Pension Insurance of 1941 was a scheme covering most of those covered by Health Insurance, for the aged, those with permanent disability, and for survivors. Other than these schemes, Seamen's Insurance Scheme(1939), Unemployment Insurance Scheme(1947), and the Industrial Injury Compensation Insurance Scheme(1947) were enacted by the Japanese government.

³² Midgley(1984), Ibid., pp. 175-176.

The rule of Japanese who were influenced by Western society did little to inculcate Western liberal values such as egalitarianism.³³ Even though the Japanese colonial authority planned to assimilate the Koreans into Japanese culture and to construct a strong logistic base for Japan's continental expansionism, even so, the Japanese did not enact any of these schemes for the welfare of the Korean people. Furthermore, the Korean people were not allowed to participate in political activities, nor were they able to challenge the situation for their own welfare. The main reason was that the Japanese aims in Korea were only to exploit human and natural resources in order to aid the economic development and war preparations of Japan. Therefore, the limited role of government to develop social security policy was not changed; only temporary and curative measures were taken in the case of disaster, old age, and sickness.³⁴ The benefits were very limited and sporadic.

Only the Poor Law, which was enacted in Japan in 1929 and implemented in 1937, was enacted in Korea 15 years later, but it was not put into effect at all. In spite of this, the law was important because it was the first legal document that gave the government responsibility for the poverty, sickness, etc. of the people, and it further guaranteed the minimum standard of life. A few social security institutions were administrated by the Japanese governor-general in Korea, but major private institutions were carried out by the Koreans during this period. Social welfare facilities in 1927 included 3 neighbourhood welfare services, 10 personal counselling services, 4 housing services, 8 job information services, 25 child welfare services, 26 poor relief services, 24 correctional services, and 2 services for aged.³⁵

In conclusion, in the period of the Japanese rule, the government neither played nor was expected to play a role in social policy. Consequently, the direct diffusion effect would not apply to the Korean case at this period.

³³ *Ibid.*,

³⁴ In-Hyub Chang(1981), *Introduction to Social Welfare*, Seoul: KDI., In Korean.

³⁵ In-Hyub Chang(1985), "Korea, South," In John Dixon and Hyung-Shik Kim(Eds.), *Ibid.*, p. 179.

3.3.2. Korea Under American Military Government(AMG): 1945-1948.

(A). The AMG's Policy in Korea.

Korea regained its independence in 1945, but this did not bring release from political and economic problems; in fact, the first years after independence were extraordinarily difficult and influenced the pattern of subsequent political and economic events. There were increasingly bitter power struggles in the South and an almost complete breakdown in the economic, political, and social order. But the separation of the nation into two states had the most far-reaching effect. The geophysical characteristics of the Korean peninsula make it an economically interrelated unit, with the large mineral deposits and hydroelectric facilities in the North complementing the predominatingly agricultural economy of the South. The division of the country destroyed this interdependence of the economy. It gave the South less than half the land, about three-fifths of the population, most of the agriculture, and very little of the industry.

The three years from the surrender of Japan in August 1945 to the establishment of an independent Republic in August 1948 were marked in Korea by internal political struggle and by constant friction between the AMG in the South and the Soviet occupation forces in the North. The AMG of South Korea began on 9th of September 1945 shortly after the formal surrender of the Japanese forces on Korean territory south of the 38th parallel. For the examination of the AMG's policy, we have to consider the nature of the American occupation forces in South Korea and ask whether it was a liberator or a conqueror, and whether it was different from or the same as the Japanese colonial forces. Indeed the three years of this period were significantly influential on the post-liberation Korean political and socio-economic development. The U.S. government, of course, asserted the liberator's view and the Koreans received the Americans as such, but the Americans acted as the conquerors. According to the army manual, Korea was treated as a conquered enemy country, but Japan was treated as a liberated friendly country. This treatment contradicted our common knowledge that Japan was one of the major enemies of the U.S. during World War II, and Korea was liberated from Japan as the result of Japan's defeat in the war. However, this contradictory treatment of Korea and Japan

can be understood when we consider the U.S. foreign policy in the post-war period, that is, the cold war policy, which included two basic elements: anti-Soviet and anti-revolutionary in the Third World countries.³⁶ On the basis of these two principles the AMG's Korean policy was established, so that the change from Japanese to Americans as the ruling foreign forces in Korea did not make a fundamental change in the nature of the state.

This was because the only American interest in Korea was to build an anti-communist bulwark which was based on the support of the conservative Korean allies and opposed to the revolutionary Korean nationalists. Korea was becoming very important for the U.S. military strategy because Korean territory would become the only area of the northeast Asian continent not under communist control since the Soviet Union consolidated its power in North Korea, and since the Nationalist government of Chiang Kai-Shek had begun to falter in China. For this purpose, the U.S. reorganised all Korean social, economic, and political structures.

In decolonised Korea, the two most important political issues were the punishment of the pro-Japanese collaborators and land and industry reforms which were owned by Japanese and their collaborators. However, the AMG ignored this need for revolutionary changes of the South Korean economy and society, and pursued a policy to maintain the status quo and to support the conservative Koreans. Let's look at why these three issues were necessary in decolonised Korea.

First, under Japanese rule, only those who supported the Japanese colonial forces could maintain their prestige as large landlords and wealthy businessmen. The colonial bureaucrats directly participated in the Japanese exploitation and oppression of the Koreans. These former pro-Japanese collaborators could easily transform themselves into being pro-American and anti-communist, because they needed a new protector against the nationalist Koreans who wanted to punish them and confiscate their properties. Under the auspices of the AMG, they established the Korean Democratic Party(KDP). In an awkward effort to give Korea a semblance of self-administration, on 5th of October, 1945, the AMG appointed an eleven-member Advisory Council, which was originally supported by the KDP. Nine members of the council came from the KDP and one of them became the

³⁶Richard Barnett(1972), Intervention and Revolution: The United States in the Third World, New York: A Meridian Book, pp. 19-20.

chair. But the representative of the Korean People's Republic(KPR) was in the north, and Un-Hyong Yo refused to participate in a council so dominated by collaborators. As a result, the various political leaders who had been keeping alive the flame of independence were not recognised as official representatives of the Korean people by the AMG. Among them was a group, the Provisional Government of Korea, who had been refugees in China.³⁷ Advised by these men, the AMG surrounded itself with a choice set of rich collaborators and KDP leaders. With the support of these bureaucrats in the AMG, the KDP could elevate itself from a weak political group to the ruling party under the AMG, while helping the AMG suppress its political rival, the KPR. The KPR was forced to transform from a de facto Korean government into several political parties and finally to abolish itself.

Secondly, the land reforms meant fundamental changes in the economic system of agricultural South Korean society. Decolonised Korea needed wide-reaching land reforms in order to democratise the exploitive social relationship between the landlords and tenants, and to solve the problem of the miserable poverty of the peasants. Korean agriculture had serious problems, the resulting legacy of forty years of Japanese colonisation. The Japanese colonial forces maintained the use of landlords as a means of exploiting Korean peasants. As a result, the proportion of tenants among the total peasants had increased from 35 percent in 1913 to 54 percent in 1941. Including semi-tenants(24%), more than three-fourths of Korean peasants were exploited by landlords.³⁸ Furthermore, tenants were forced to pay land rents with 50 or 70 percent of the principal crops raised usually in a small area of less than one chongbo(2.45 acres). Therefore, Korean peasants or tenants led lives of miserable poverty. In 1930, 48.3 percent of the total Korean peasants and 68.1 percent of tenants were starving.³⁹ Moreover, in decolonised Korea, the population increased rapidly because of the repatriates from Manchuria and Japan, most of whom were former peasants and wanted farm land. Thus, it was necessary to confiscate the lands owned by Japanese and Korean landlords and to redistribute them to the tiller

³⁷ Channon McCune(1966), Korea: Land of Broken Calm, Princeton: D. Van Nostrand Company, Inc., p. 101.

³⁸ The minority Japanese and Korean landlords who accounted for only 3% of the total agricultural households owned 50 or 60 % of the total cultivated lands throughout Japanese rule.

³⁹ Kyong-Sik Park(1986), Japanese Imperialism's Control of Korea, Seoul: Chonga. p. 507. In Korean.

peasants, not only to democratise the exploitive relationship between landlords and tenants but also to restore the South Korean economy and to solve the problems of large unemployment and the miserable poverty of peasants.

However, the AMG wanted to keep the old order. Since the AMG had the landlords' group, the KDP, as its Korean ally, a fundamental land reform could not be expected. Instead, the distribution of some lands to tenants or the 'small scale revolution' made by people's committees was to be undone by the Americans. The pressure for land reform was so great that the AMG was forced to announce a programme for reducing the rate of land rent in October, 1945. The pressure for land reform was greatly increased after a fundamental land reform was carried out in the North in March, 1946.⁴⁰ Thus, the AMG reluctantly announced on 15th of March the sale of former Japanese-owned farmland to the tiller peasants. The land price would be a sum five times the value of the annual production and would be paid yearly with one-third of the crop for fifteen years.⁴¹ However, the Americans did not even keep their own word. The Americans gradually realised that neglect of the continuing demand for land reform, like that implemented in the North, could provide the conditions for the rapid increase of revolutionary leftists. Thus, the AMG assigned the job of drafting a land reform law to the Korean Interim Legislative Assembly(SKILA), which was established in December, 1945, the majority of whose members were landlords and their supporters. The draft law which the SKILA made in December, 1947, stipulated the following: confiscation of the lands owned by the Japanese without compensation and the lands owned by Korean landlords with compensation; distribution of the lands to the peasants and the refugee repatriates with charge. The SKILA could not reach an agreement to make the draft a law until the time came when it was abolished in March 1948.⁴²

Planning to hold a general election on 10th of May in South Korea, the Military Government could not postpone land reform any longer because the peasants accounted for three fourths of the population. Moreover, the Americans needed to make concessions to the peasants in order to alleviate

⁴⁰ The land reform in the North was characterised by confiscating the lands owned by Japanese and Korean landlords without compensation and distributed them to the tenants without charge.

⁴¹ Hiroshi Sakurai(1982), "Reexamination of the Korean Land Reform," In Chong-Sik Lee et.al., Rethinking of Contemporary Korean History. Seoul: Tolbegae. Trans. from Japanese. In Korean.

⁴² Sakurai, Ibid., pp. 13-17.

the strong opposition from the revolutionary Korean nationalists to the separate elections in South Korea alone. The AMG announced the sale of former Japanese-owned land on 22nd of March, 1948. Thus, finally the AMG carried out a partial land reform.

Finally, the American control of South Korean economy became concrete when AMG declared to take-over the Japanese properties in South Korea. As a result, the AMG came to control 80 percent of the total South Korean capital, or 94 percent of the total investment in manufacturing industry.⁴³ The AMG's permission to sell and buy Japanese properties was in contradiction to the Korean's general belief that all Japanese properties in Korea were originally Korean properties which had been exploited by the Japanese for forty years. This policy was the AMG's attempt to help its Korean collaborators, because only the collaborators had the wealth to buy Japanese properties. Therefore, the post-decolonisation Korean labour movement, which was characterised by the workers' self-management, entered into a new stage when the National Council of Korean Labour Unions(Choson Nodong Chohap Chonguk Pyonguihoe: Chonpyong), was organised on 6th of November, 1945.⁴⁴ The AMG viewed the growth of the workers' self-management movement under the leadership of Chonpyong as an important threat to the American interest in building an anti-communist bulwark based on the cooperation of Korean collaborators. To control the workers' movement, the AMG established the Department of Labour and supported to establish the rightist Korean Federation of Labour Unions(Taehan Nochong: FKLU). The FKLU was a political organisation, but not a real labour union because it was organised by non-workers and its goal was not improvement of workers' living conditions, but the struggle against communism.⁴⁵ The history of labour disputes from then on is filled with the struggles between FKLU, with its AMG support, and the Chonpyong, with its workers' support.

⁴³ Yun-Hyong Chong(1981), "Economic Growth and Monopoly Capital," In Yun-Hwan Kim et.al., The Process of Korean Economy: From Liberation to the 1970's. Seoul: Tolbegae. p. 134. In Korean.

⁴⁴ Following the tradition of the leftist leadership in the Korean labour movement under the Japanese colonisation, the Chonpyong was controlled by the leftists.

⁴⁵ Korean Federation of Labour Unions(1979), History of Korean Labour Union Movements, Seoul. pp. 278-281. In Korean.

In sum, the basic objectives of AMG in Korea were to establish a free and independent nation with effective self-government, a stable economy, and friendly relations with the United States. But, unfortunately, the Americans did not have a clearly outlined bureaucratic plan for Korea because the American advisers had little time to investigate thoroughly those situations, and therefore, the military government pursued a policy to maintain the status quo and to support the conservative Koreans.

(B). Development of Social Security Policy Under the American Military Government.

During the period of the United States occupation, which was expected to implant Western values in social welfare areas, the efforts for many refugees, the poor and the sick were also only curative and temporary, and the form of the service provision was mainly that of institutional care. The U.S. social policy in Korea became clear when it was compared with that in Japan. After World War Two, the American Occupation Authority in Japan was highly concerned about the Japanese social security system. Perhaps the most significant action taken by the Occupation Authority in the area of social security was an American Mission headed by Dr. William H. Wandal. The Mission arrived in August, 1947 and submitted the report, titled "Recommendations on the Social Security System." The report consisted of three parts: the first part described all the Japanese social security schemes; and the second part contained the Mission's recommendations; supplementary appendices, primarily statistical tables were given in part three of the report.⁴⁶ A distinctive feature of the post-war Japanese social security system has been implemented by this report.

However, the AMG did not take up any serious research on this subject, mainly because, as we mentioned already, the only U.S. interest in Korea was to build an anti-communist bulwark which was based on the support of the conservative Korean allies. As a result, the AMG only wanted to keep the older order. However, unlike the Japanese regime, the AMG followed the

⁴⁶ See, Social Security Mission to Japan(1948), Report of the Social Security Mission to Japan, Washington, D.C.: Department of the Army.

Poor Law as enacted in 1944, and developed additional memoranda concerning refugees, and others in need.⁴⁷

3.3.3. Korea Under the First Republic: 1948-1960.

(A). Politics.

A general election was held in 1948 in the Southern half of Korea, under the Supervision of the United Nations Temporary Commission on Korea(UNTCOK) to establish the first National Assembly. The National Assembly drafted and approved the nation's constitution, and Korea soon joined the ranks of independent states, with Syngman Rhee as her first president. The government created under the new constitution was a republic that contained a curious mixture of both the British parliamentary system and the American presidential system.⁴⁸ The constitution's full guarantee of basic individual rights and liberties has been interpreted by many to be an explicit attempt on the part of political leaders to establish a liberal democracy.

However, the new government quickly fell prey to Rhee's autocratic rule. Rhee was a typically charismatic leader who attempted to monopolise all political power. Political opposition was ruthlessly suppressed, destroying any chance which might have existed for the development of a viable two-party or multi-party system. The legislature was overshadowed by the executive and became increasingly a rubber stamp organisation. Because of this, the democratic political system did not contribute to making the political power pluralistic, but rather came to justify a dictatorial political leader through an imitation of democratic procedures.⁴⁹

⁴⁷ Young-Whan Lee(1989), "Poor Relief Policy Under the American Military Government," In Sang-Rak Ha(Ed.), The History of Social Welfare in Korea, Seoul: Pak Young Sa. pp. 423-466. In Korean.

⁴⁸ John Kie-Chaing Oh(1968), Korea: Democracy on Trail, Ithaca: Cornell University Press. p. 18.

⁴⁹ Wan-Ki Paik(1991), "The Formation of the Governing Elites in Korean Society," In Gerald E. Caiden and Bun-Woong Kim(Eds.) A Dragon's Progress: Development Administration in Korea. Connecticut: Kumarian Press, Inc., pp. 44-45.

(B). Economic Situation.

Korea's economic and political problems were inherited by the AMG during the brief period from 1945 to 1948. American economic interests in the country were never clearly established and so there was no purposeful development of the economic fragment that was Korea.⁵⁰ The AMG role was, therefore, mainly limited to meeting the immediate problems created by post-war dislocation and the needs of a flood of refugees returning from other areas of the former Japanese Empire.

When the country was finally liberated from Japanese colonial rule, Korea was an exhausted land. Her natural resources and manpower had ruthlessly and indiscriminately been exploited, her energy was sapped, and her time and creativity were wasted for Japan's vanity and greed. These circumstances had thrown Korea's economy into complete chaos. Even if the occupation forces had arrived with a carefully laid economic plan, the situation would have been difficult because the Japanese had developed Korea's economy as an integral part of the empire, linking it to that of Japan and Manchuria. The division of Korea into two zones at an arbitrary line further aggravated the situation. Rice production, which had depended on fertilizer produced in the North, fell, while what rice was produced failed to reach the urban populations and was consumed in the countryside. Mass starvation was prevented only by large quantities of wheat from the U.S.

The industries which had been located in the South was unable to function for lack of raw materials and then energy(after electrical power from the North was cut off in 1948). Brown records that, in 1946, Korean manufacturing plants had been reduced by more than half of the pre-1945 number and that those still in operation were producing at only 20 percent of capacity.⁵¹ The concentration of heavy industry in the North(86%) left the South (with 74% of light industry) with an unbalanced and unintegrated manufacturing sector.⁵² Furthermore, the problem was compounded by the fact that most of the mines and industries had been owned and operated by

⁵⁰ Paul W.Kuznet(1977), Economic Growth and Structure in the Republic of Korea, New Haven: Yale University Press, pp. 89-90.

⁵¹ Gilbert T. Brown(1973), Korean Pricing Policies and Economic Development in the 1960s. Baltimore: Johns Hopkins University Press. p. 3.

⁵² George M. McCune and Arthur L. Grey, Jr.(1950), Korea Today. Cambridge: Harvard University Press. p. 57.

the Japanese. As the AMG let the 700,000 Japanese depart from South Korea in the months following the American occupation, almost all of the mines and factories were without managers, technicians, and capital resources. This led to severe problems of unemployment and material shortages. Thus there were many inherent problems in building a self-sufficient economy in the southern half of the peninsula. What is worse, Korea was founded in 1948 but had been in existence less than two years when the Korean War was begun in 1950. Most of the peninsula was ravaged, and the country's meagre stock of industrial capital and high-level manpower was demolished. Reconstruction began even before the war ended with an armistice in mid-1953, but much of the economic growth from 1953 to 1959 or 1960 represented recovery and not an advance over pre-war levels of development.⁵³

(C). Korean War: 1950-1953.

The Korean War had the most significant effect on the social scene. The war began on 25th of June, 1950 and ended with a military armistice rather than a peace treaty on 27th of July 1953. The war had a major effect on industrial well-being, political development, institutional structure, and the world surrounding Korean peninsula, that can not be ignored.⁵⁴

First, the war created devastation throughout Korea and was a bitter memory to all Koreans. The level of destruction was extremely high by standards of modern warfare. Brown cites figures showing that more than one out of every twenty South Korean civilians, or 991,000 people, were casualties--667,000 were killed or missing, 230,000 were wounded, 84,000 forcibly removed to North Korea.⁵⁵ Physical destruction was also huge. Brown reports that physical losses were equal to the entire 1953 national product.⁵⁶ Some 661,000 buildings and facilities were destroyed, 40 percent of which were dwellings and 20 percent transportation goods and other infrastructures.

Secondly, the war itself was responsible for the continued erosion of traditional values and the increasingly fluid nature of the society. Although the war lasted only a relatively short time, it brought almost all Korean men

⁵³ Kuznets(1977), *Ibid.*, p. 90.

⁵⁴ *Ibid.*, p. 37.

⁵⁵ Brown(1973), *Ibid.*, p. 35.

⁵⁶ *Ibid.*,

into the armed forces, through which they were exposed to a way of life most had never seen before--to the possibilities of urban life and modern technology and the values that accompanied them. The war displaced large segments of the population; there was a large influx of refugees from the North, many of whom resettled in communities without traditional social ties and obligations. Throughout rural Korea community solidarity competed successfully with traditional kinship ties for the loyalties of the average person--a considerable shift in the balance of such values.

Thirdly, the war had profound consequences for the economy in later years. Extensive physical damage and institutional disarray made reform and reconstruction essential. War brought about inflation which led to a variety of barter techniques, a degree of government corruption much greater than was traditional in Korea, and the breakdown of many ordinary business arrangements. In consequence, much of the economic growth from 1953 to 1959 represented reconstruction and the replacement of previous productive capacity rather than expansion beyond previously achieved output level.

Fourthly, the war resulted in institutional and political changes. War and American support for the Korean military, not the voluntary internal operation of Korean cultural processes, had made the army pre-eminent.⁵⁷ This development led to the military coup of 1961 and subsequent rule by an authoritarian regime controlled by the military.

Fifthly, the war marked the first time that the United Nations undertook military action. Though most of the UN troops were Korean and U.S. soldiers, they were joined by fifteen UN members who sent troops and military supplies. Moreover, a large number of Chinese troops remained in North Korea until October 1958, and China began to play an increasingly important role in Korean affairs. The war also spurred Japan's industrial recovery and the U.S. decision to rearm Japan.

Finally, the war is still an unfinished war, a war without victory. Half a million soldiers, with many more forces and weapons ready to back them up, are poised on each side of the demilitarised zone that cuts across the peninsula. Since tension on the Korean peninsula remained high, the U.S. continued to station its troops in Korea, over the strenuous objections of North Korean leaders. The confrontation not only diverted for military use,

⁵⁷ Gregory Henderson(1968), Korea: The Politics of the Vortex. Cambridge, Mass.: Harvard University Press. p. 186.

resources that might have otherwise been used for socio-economic purposes but also shifted the locus of political power and with it the nature of domestic socio-economic policies. In addition, the confrontation enhanced the size and power of the army from 100,000 men in 1950 to as many as 650,000 men thereafter.

(D). The National Reconstruction Process.

As the military front stabilised in 1953, reconstruction efforts began and it was perhaps from that date that the growth of the modern economy is best studied. President Rhee knew little of economics, but could not be shaken from his conviction that economic development was viewed as a part of economic recovery and an extension of economic stabilisation, and economic planning was considered as a basic tool of communists.⁵⁸ He believed the solution for Korea's economic problem was through complete dependence upon U.S. aid and his great concern was how to maintain an arbitrary exchange rate(from U.S. dollars to the Korean currency) in dealing with the U.S.. However, the U.S. aid programme was directed more towards importation of consumer goods than to the building up of basic production facilities, aggravating Korea's tendency to consumption, rather than production, and hence fostering a consumption-first economy. This ran diametrically counter to the direction the Korean economy should have taken for the attainment of self-sufficiency.⁵⁹

International pressures on Korean politics and on plans for economic development came from the UN and the U.S.

First, during the war and until the time that the cease-fire agreement was signed, all important relief activities were carried out through the agency of the United Nations Command. The UN created two specialised UN agencies for the rehabilitation and reconstruction of Korea. They were the United Nations Commission for the Unification and Rehabilitation of Korea(UNCURK) and the United Nations Korean Reconstruction Agency(UNKRA). The function of UNCURK was to represent the UN in

⁵⁸ In-Joung Whang(1991), "Government Direction of the Korean Economy," In Gerald E. Caiden and Bun-Woong Kim(Eds.), *Ibid.*, p. 86.

⁵⁹ Robert T. Oliver(1978), Syngman Rhee and American Involvement in Korea, 1942-1960: A Personal Narrative, Seoul: Panmun Book Company Ltd., pp. 481-482.

bringing about the establishment of a unified, independent and democratic government in Korea. UNCURK had prime responsibility in political affairs relating to the establishment of a democratic government and a unified Korea. Moreover, it acted as an advisory body to the Agent General of UNKRA. The relief and rehabilitation programme was placed in the hands of UNKRA, whose head, the Agent General, reported directly to the General Assembly for approval of proposed programmes and policies. When the UNKRA programme began in Korea, the UN's own aid programme was also in being, administered through the Economic Cooperation Administration(ECA), the Civil Relief in Korea(CRIK), and the Armed Forces Assistance in Korea(AFAK) agencies. Due to UNKRA's political and financial weakness and the existence of a stronger U.S. aid programme, however, the UNKRA was unable to exert any pressure on the Korean government in economic affairs and, specifically, in development planning. When the Robert Nathan Associates prepared the Nathan Plan, the first long-term development for Korea, and submitted it to the UNKRA authorities in 1954, UNKRA could not capitalize on this well-prepared economic plan as had originally been intended.

Secondly, the U.S. aid programme, on the other, began to be used to exert political pressures on the Korean economy from 1952 when programme officials urged upon the Korean government the aid option of several policy measures desired by the U.S. government. The purpose underlying such U.S. pressures was based on the U.S. policies to protect Korea from communist aggression and to achieve rapid economic stability in the country. Instruments of such pressure were the Meyer Agreement of 24th of May, 1952 which established the Combined Economic Board(CEB), the Tasca mission, and the Office of Economic Coordinator(OEC). Until 1961, these instruments extended political pressure on the Korean government encouraging the adoption of various economic development plans in Korea. Especially, in relation to the economic planning, the Tasca mission investigated the economic needs of Korea after the conclusion of the armistice and formulated a Three-Year Economic Development Plan on 15th of June, 1953. The Tasca Report suggested that it would be necessary for the U.S. to extend, for four or five years, long-term aid to Korea in support of its defence, relief, and rehabilitation programmes. The Tasca Report was the first long-term economic development plan formulated by the U.S. government for the effective rehabilitation of Korean economy through the

help of American aid. In mid-1958, two important policies concerning the U.S. aid programme were made public. The first was the announcement of a gradual reduction of the U.S. aid level due to domestic pressures on the American government, and the second was the shifting of aid programmes from outright grants to loans. Therefore, the Korean government's formulation of a Three-Year Economic Development Plan in December, 1959, was one important consequence of the declining trend in the U.S. aid programme and the shifting of aid from outright grants to loans. The plan was chiefly intended to obtain more American aid for investment and development.

The average rise in the Gross National Product(GNP) was 5.5 percent per year from 1954 to 1958. Industrial production led the advance, growing by nearly 14 percent per year. But the tightening of fiscal and monetary policies in 1958, coupled with the phasing-out of the UN reconstruction agency programme and the reduction in direct aid from the U.S. in 1957, caused a shortage of raw materials for import-dependent industries that led to an overall economic decline. By 1958 Liberal Party leaders paid more attention to political survival through control than to economic development. The government adopted a comprehensive Seven-Year Economic Development Plan in January, 1960, but before it could be implemented, the Student Revolution brought down the government.

(E). Development of Social Security Policy Under the First Republic.

As the AMG before it, the Rhee regime represented the interests of the minority capitalists against the majority workers, and of the minority landlords against the majority peasants. Rhee had the AMG bureaucrats as his supportive political elites, but did not have the economic base to maintain his political apparatus. Thus, the Rhee regime's socio-economic policy was to build a capitalist class as an anti-communist bulwark. For this purpose, the Rhee regime sold the former Japanese owned properties, which accounted for more than 80 percent of the total Korean capital, to Korean employers for the AMG at low prices and postponed land reform until 1950 to allow the landlords opportunities to see their lands and transform themselves into capitalists entrepreneurs. Thus, through the government's

favoured treatment of them, the former pro-Japanese businessmen and landlords became the leaders of the Korean economy.⁶⁰

While pursuing the policies to promote the interests of the landlords and businessmen, the Rhee regime did not make many effort to solve the economic problems of the workers and peasants. The Rhee regime did not seem to have the will or ability to solve the sky-rocketing inflation, the massive food shortage, the miserable housing situation, and the large scale of unemployment. The government, however, specified that by law it had a responsibility for those who were old, sick, and unable to work, but related laws and regulations were not developed. Social welfare services were supplied through the private sector operated by foreign financing and foreign staff; most were Christian missionary groups. Therefore, the main objective of social welfare was focused on the relief of immediate social ills, including flood and fire victims, distribution of free grain during years of bad crops, placement of orphans in institutions or adoptive homes, aid to disabled veterans, and programmes for family planning.

One of the historical events which had a persistent impact on the development of social security policy in Korea could be the Korean War. The problems left by the war have been persistent economically and psychologically, and have had an inevitable impact on the people and other social institutions. The war is believed to have influenced the changes of national social security policy development in four aspects.

At first, the war itself directly affected the development of social policy in Korea by creating huge problems, like the large numbers of war orphans, refugees, widows, and disabled persons, and a ruined economy. From the initiation of the modern social welfare system, this war created enormous needs for protective social services on a level that the government, with its weak economic basis at the time, could not handle. Therefore, foreign aid and services in these areas were a major part of the relief efforts, and private welfare agencies were established to administer foreign aid. The decrease in the welfare population in Korea since the 1960s might be understood as a natural decrease in these dependent populations, as social and economic

⁶⁰ Pyong-Tae Kim(1981), "Evaluation and Reflection of Land Reform," In Yun-Hwan Kim et.al., Development Process of Korean Economy, Seoul:Tolbaegae, p. 47. In Korean; Yong-Beom Cho et.al.,(1984), Korean Monopoly Capital and Chaebol, Seoul: Pulbit, p. 45. In Korean.

structures, including the family and market, returned to normal. After the war, most people were on the edge of absolute poverty.

Secondly, as Wilensky indicated, modern Korean society moved towards a 'warfare-welfare' state in which political elites, alert to problems of national integration and morale, secured the collaboration of the masses for wars and disciplined sacrifice by extending social security, providing the symbols of participation, and an illusory equality.⁶¹ With the exception of the cost of raising the size of Korean army from 100,000 men in 1950 to as many as 650,000 in 1951 hearafter, the war created huge national defence expenditures. As we can see in the Table 3-2, the military spending undercut welfare spending in Korea. To illustrate this statistical pattern more concretely, increases in military spending are associated with small increases in social security spending. The resulting swift increase in military spending cast the die for a poor welfare performance for Korea, which was swept up in the atmosphere of crisis.

Table3-2: Social Security and Defense Expenditures in Relation to Total Government Expenditures, 1965-1985.

(Amount in billions of won; %).

Year	Government Total	Social Security Expenditure(As % of Government Expenditure)	Defense Expenditure(As % of Government Expenditure).
1965	93.5	5.0 (5.4)	29.8 (31.9)
1970	441.3	16.8 (3.8)	102.3 (23.2)
1975	1,535.3	61.2 (4.0)	442.4 (28.8)
1980	6,466.8	264.9 (4.1)	2,263.2 (35.1)
1985	14,867.0	779.0 (5.2)	3,957.9 (26.6)

Sources: Ministry of Finance, various Issues of Summary of Financial statistics.

Thirdly, we can think about a diffusion effect of Korean social security policy development in the process of the socio-economic reconstruction since the war. As we mentioned already, the international organisations, especially the UN, made a great contribution to post-war reconstruction. However, judging from the UN publications at that time, the UN encouraged only economic development and showed little concern about the social

⁶¹ Harold L. Wilensky(1975), Ibid., p. 70.

security development. Therefore, we do not find direct diffusion effort from the international organisations during this period.

Finally, looking at the war from the positive side, it further effected a ruthless levelling of wealth, with an accompanying breakdown of social networks and the inhibitions of tradition and class to the pursuit of economic opportunities. This static asset redistribution phase was followed by a dynamic redistribution phase which reflected the strong drive of the Korean people and their faith that, with effort and the right opportunities, these standards could be achieved. Thus, until the 1960s Korea had a relatively equitable social and economic base from which to launch its development efforts, and a much higher human resource potential than the great majority of countries with a comparable per capita income level.

3.3.4. Korea Under the Third Republic: 1961-1972.

(A). Politics.

The abbreviated Second Republic was inaugurated in August of 1960 and was overthrown in May, 1961, by the military group led by the then Major General Chung-Hee Park. The Second Republic's brief history was characterised by considerable idealism, a commitment to civil liberties, broadened participation and, at the same time, an irresponsibly biased press, governmental vacillation, instability, continued lack of party discipline and , arguably, ideological polarisation on issues concerning the type of economic order to be pursued, attitudes toward the roles of the states coercive instruments, the means of achieving national unification, and dependency on the U.S.⁶²

Many military officers and civilian intellectuals had perceived the Second Republic under Chang Myun as a weaker regime incapable of dealing with social unrest. They supported or at least tolerated the military intervention in the political process. But they strongly believed that it would be illegitimate for the military to assume the direction of the political system for long periods of time. The military junta ruled Korea for two and half years, after which

⁶² Sung-Joo Han(1974), The Failure of Democracy in South Korea, Burkeley: University of California Press. P. 5 and passim.

junta leaders decided to perpetuate their control by becoming politicians themselves.

After its victory in the elections Park's government took a number of bold measures for political reform and economic development in the 1960s. His government initiated the First Five-Year Plan for Economic Development in 1962. It also began negotiations with Japan on a diplomatic normalisation treaty, signed in 1965, to end the twenty years of non-communication between two close neighbours. Park's government also took the bold action of sending troops to South Vietnam in 1966 to assist the U.S. effort there. The move, ostensibly made to repay the debt incurred to the U.S. during the war, gained hard currency for Korea in the form of payment for services rendered by the Korean armed personnel in Vietnam and for the purchase of Korean goods and services there.

Compared to the Park's Yushin Regime(1972-1979), the Third Republic can be considered to have maintained democracy though only formally, because only the most basic of the democratic procedures, i.e., the political participation of the people through direct voting, was formally maintained. The ruling elites put much effort and energy into the creation of political parties. An opposition party was allowed and even encouraged. A National Assembly with full democratic and legislative powers was established, and the leaders of the new regime repeatedly declared their loyalty to the concept of political democracy. Indeed after the government was re-elected on a civilian basis-- up to 1969-- civil liberties and freedom of political debate were given a fair degree of protection.

As we have seen already, however, Korean society has been historically characterised by a monolithic power structure in the sense that all kinds of power centralised into the hands of one man. This traditional power structure has surprisingly been reinforced while otherwise the society has been modernised and diversified.⁶³ Despite his initial endeavour to remove the crude characteristic of a military cabinet, however, Park's power structure continued to be more and more centralised than Rhee's previous regime. He wielded almost absolute power, never restricted by any constitutional limitation and built the efficiency-oriented structure of elites considered to be

⁶³ Wan-Ki Paik(1982), "The Formation of the Governing Elites in Korean Society," Korean Social Science Journal, Vol. 9. p. 51.

a necessary instrument for achieving indefinitely prolonged power. He was prone to believe that desirable national goals are achieved by disregard or suppression over the political oppositions. Therefore, he considered the political opposition and criticism as an enemy to be attacked and destroyed.

The coup members realised their own inferiority, not only in terms of their less educated and more rural backgrounds but also in terms of their legitimacy and ability to govern the country. Given the heavy influence of the Chinese imperial bureaucratic system under the Confucian heritage, which we examined already in this chapter, the status of civil servants and university professors had been regarded as highly prestigious. What followed then was a large-scale cooperation of various civilian groups in the governing progress. A complex ruling coalition formed among military officers, bureaucrats, entrepreneurs, the mass media, university professors, and other professionals, to protect and promote mutually compatible interests and values.⁶⁴ Park needed elites more concerned with the implementation of policies than with their formation: the kind of elite system he wanted was an instrumental one. In other words, he did not like politics-oriented elites, but administrative-oriented ones.⁶⁵ Ruling elites formed in this kind of political process were always subordinate to the political leader. The relationship between the political leader and the elites was characterised by domination and submission. Elite groups created by this kind of dictatorial leaders can never be deeply rooted in the people's mind, and hence have no appeal and little power over them. The groups were not concerned with policy-making; instead they were totally devoted to serving and implementing the leaders' will.

Therefore, the most important feature that characterises the policy-making process during the Park regime is the executive domination and extremely centralised pattern. Thus, it is not surprising that the pluralistic model with its ideal of popular participation in public policy-making does not match up to empirical Korean political realities. Equally significant is the dominating role of the president at the apex of power. Naturally, this kind of political system makes the personality of the ruler extremely important. In relation to the centralisation of power, the role of the braintrust at the Blue House can not

⁶⁴ For the new elites of Korea, see Sung-Chul Yang(1981), *Korea and Two Regimes*, Cambridge, Mass: Schenkman Publishing Company, Inc., pp. 233-244; Wan-Ki Paik(1982), *Ibid.*, pp. 49-65.

⁶⁵ Wan-Ki Paik(1982), *Ibid.*, pp. 53-54.

be underestimated. The presidential mansion or the Blue House, called the 'small cabinet,' employed many brains and also allocated these trained power holders to the cabinet or the National Assembly. In sum, the power structure of the Park regime institutionally consisted of two poles; the Blue House and the KCIA on the one side, and the ruling party, Democratic Republican Party and the National Assembly tool on the other. The cabinet controlling the administration functioned in between these two poles, and in the process of pursuing economic development, the cabinet members concentrated their concern on economics rather than on politics.

(B). National Development Strategy.

During the Third Republic, Park had most frequently emphasised security and unification and economic development. In political development, he had focused on duty and order rather than rights and freedom. In social welfare, worrying about the evil effects attendant upon economic development, he stressed welfare in the latter period.

While the Korean economy of the fifties can be characterised as extreme depression due to the Korean War and as being dependent on the American aid, that of the sixties can be characterised as the beginning of state-pursued, export-oriented industrialisation. President Park showed more commitment to the nation's economic development. He emphasised that "without a hope for an economic future, reforms in other fields such as politics, social affairs, and culture could not be expected to yield fruits" and "without economic reconstruction, there would be no such things as triumph over communism or attaining independence." He believed that creation of a self-supporting economy through planned economic development was a key to national development as well as a precondition for unification. Professor Lim analysed the reasons why President Park was so interested in the economic development. He suggested the following factors:⁶⁶

(1). The military revolution, when seen from the democratic ideal, was hardly convincing. Therefore, it is hard to base the political legitimacy of the Park's government on the democratic value alone.

(2). The people and the intellectual elite asserted the need for long-term economic planning in order to shake off the nation's dependence on foreign

⁶⁶ Hy-Sop Lim(1975), "Social Development in Korea and Tasks Facing Sociology," Korean Social Science Journal, Vol. 3 p. 191.

aid.

(3). It might be easier for the leaders of the Park's government, most of them formally soldiers, to pursue an instrumental value such as economic growth than to seek a symbolic value such as democracy.

(4). The political leaders who had experience as military commanders were naturally inclined to pay greater concern to the threat from the communist regime in North Korea and economic competition between the South and North.

For this single purpose, President Park mobilised the entire executive branch to make decisions based on expected economic outcomes. During the Park administration, the symbols of 'national development' and 'economic development' predominated government policies and actions. President Park, therefore, introduced various institutional changes necessary for effective economic decision-making.⁶⁷

At first, President Park replaced the Ministry of Construction with the Economic Planning Board (EPB) on 22nd of July, 1961. The EPB was given substantially the same role of economic planning and coordination which had been assigned to the Ministry of Construction, but it was strengthened by the transfer to it of the Budget Bureau from the Ministry of Finance and the Statistic Bureau from the Home Ministry. The new EPB was also given a status somewhat above that of Ministries in the central government organisation structure. The chairman of the EPB serves as the head of the cabinet in the absence of the Prime Minister.

Also in 1961, an Office of Planning and Coordination was established under the Prime Minister to evaluate and monitor project and programme performance, and the Planning and Management Units were set up under the Vice Minister in every ministry to superintend and monitor tasks.⁶⁸ This significant action focused attention upon the importance which the government attached to the role of planning in the achievement of the goals and objectives of the military revolution.⁶⁹ However, it should be noted that

⁶⁷ Kyung-Cho Chung (1962), *New Korea: New Land of the Morning Calm*, New York: The MacMillan Company, pp. 127-128.

⁶⁸ Lloyd M. Short (1962), "Government Economic Planning in the Republic of Korea," *International Review of Administrative Science*, Vol. 28, No. 4 pp. 441-448.

⁶⁹ *Ibid.*, p. 441.

this was only the latest in a series of steps taken by Korea to achieve governmental progress through planning.

The first draft of a five year plan was completed by the EPB in September, 1961, and the summary of the plan was promulgated and then released to the press on 11th of January, 1962.⁷⁰ The rapidity with which the plan was drawn up testifies to the seriousness of the new rulers, but this swiftness of action was made possible because there already existed plans and data upon which to build. As we have seen already, Korea's first economic plan was actually developed in 1958 under the Rhee regime. The order to construct a plan came as a result of growing domestic and foreign pressures that demanded a better economic showing. After its formulation, however, Rhee completely ignored it. The Chang Myun government in 1960 developed an economic plan of its own, and though the early demise of that government prevented the plans enactment, it became the early source for the military's first five year plan for 1962-1966.⁷¹ The other reason was that the plan was also directly influenced by the U.S. aid policy. When Chairman Park visited Washington D.C. for a conference with President Kennedy, he brought with him a draft of the Five-Year Plan because of the statement from the Kennedy administration's policy that foreign aid would be given only to countries which were attempting long-range economic planning.⁷²

Under the First Five-Year Plan(1962-1966), the economic system was a form of 'guided capitalism,' in which the principle of free enterprise and respect for the freedom and initiative of private enterprise were to be observed, but in which the government either participated directly, or indirectly rendered guidance to, basic industries and other important fields.⁷³ The plan adopted an unbalanced growth approach as in the Draft Five Year Plan of the Chang regime by giving special emphasis to:

- (1). Development of sources of energy, such as power and coal;
- (2). Increasing earnings of farm households by raising agricultural productivity;

⁷⁰ Charles Wolf(1964), "Economic Planning in Korea," Korean Affairs, Vol. 3, No. 2. p. 230.

⁷¹ Irma Adelman(Ed.)(1969), Practical Approach to Development Planning: Korea's Second Five-Year Plan, Baltimore: The Johns Hopkins University Press, p. 12.

⁷² Hankuk Ilbo, 13 August, 1961.

⁷³ EPB(1962), Summary of the First Five Year Economic Plan, 1962-1966, Seoul, p. 28.

- (3). Expansion of key industrial facilities and adequate provision for social overhead capital;
- (4). Utilisation of idle resources;
- (5). Improvement in the balance of international payments, primarily through increased exports; and
- (6). Technical advancement.⁷⁴

The plan also envisaged a national construction service movement to mobilise unemployed rural labour to build roads, multi-purpose dams and other urban public works to inspire its 'spirit of revolution.'

The Five-Year Plan for Korea marks an important step in the country's economic development. It is also significant that this plan was the first in Korean history that the government succeeded in implementing and, furthermore, that it was formulated purely by Korean specialists without the help of foreign firms or foreign specialists as was the case with the former plans. However, the First Plan was revised in 1964, shifting the strategy from import-substitution to export promotion with the import of foreign capital and technology and was scaled down by a radical lowering of planned growth targets. The modified plan was largely ignored as *ad hoc* efforts at economic stabilisation were made. Reasons given for revision included high inflation, failure of the monetary reform in 1962, poor harvest in 1962-63, financial scandals, and defects of the original plan such as "failure to consider foreign-loan payment obligations, insufficient attention to public finance, inadequacy of supply-demand scheduling and supporting measures, and neglect of intersectoral and interproject relationship."⁷⁵ In addition, the change in strategy and its implementation process was guided, or dictated by the U.S.⁷⁶ The Agency for International Development(AID), a bank of the U.S. gave economic assistance to Korea, providing grants, loans, technical assistance, and advice. The primary goal of AID was to have Korea support the cost of its own defence through the assistance of the export-led strategy.

⁷⁴ *Ibid.*, p. 29.

⁷⁵ Paul W. Kuznets(1977), *Ibid.*,p. 202.

⁷⁶ Edward S. Mason et. al.,(1980), *The Economic Mobilisation of the Republic of Korea*, Cambridge, Mass: Harvard University Press. p. 47.

The adoption of export-oriented policies in Korea has contributed to the growth of the national economies by utilising the country's abundant resource and labour, and economising on its capital; by permitting the use of large-scale production methods and encouraging technical improvements in export industries; as well as by creating a demand for domestic materials, raising incomes, and augmenting the availability of imports.⁷⁷ As regards the policy choices available to Korea around 1960, the first consideration is the poor natural resource endowment of the country. Korea has few minerals and the ratio of the population to arable land is high. With import substitution in nondurable consumer goods and in the intermediate products used in their manufacture virtually completed, production for domestic market in these industries did not offer sufficient possibilities for rapid growth either. At the same time, the smallness of domestic markets in Korea restricted the scope of import substitution in intermediate products, machinery, and consumer durables. The new policy has further been influenced by the availability of a well-motivated labour force with a high educational level and relatively low wages that provides the country with a competitive advantage in exporting labour-intensive goods. The expansion of these industries also offered possibilities for absorbing unemployment while requiring less capital per unit of output than does the production of most intermediate goods, machinery, and durable consumer goods. Accordingly new policies had to be devised to improve the balance of payments and to attain high rates of economic growth which had become a political as well as an economic objective.

Preparations for the Second Plan(1967-71) were began in early 1964. Whereas the first plan had been conceived almost entirely by a few Korean economic experts, the second plan engaged a wide spectrum of foreign participants.⁷⁸ A system of involving a cross section of the Korean community was also devised. Experience with the first plan had made it clear that the planning process required a detailed and up-to-date collection of economic data and information. In order to insure both participation and adequate information, the idea of 'industrial committees' was conceived.

⁷⁷ Bela Balassa(1970), "Industrial Policies in Taiwan and Korea," International Development Association, Economic Development Working Paper, No. 86. p. 3.

⁷⁸ Adelman(1969), Ibid., pp. 14-15.

The main foci of the Second Plan were not substantially different from those of the first: key industrial sectors developed within the framework of expanding social overhead. This time, targets were set at rates higher than even those projected originally by the military. A target of 10 percent growth per year for gross national product was adopted. In order to achieve this goal, an ambitious plan for investment development was established. Major goals of the plan were reform in policies related to exports, domestic savings, and foreign aid. Accordingly, the Second Five-Year Plan was formulated in 1965, approved in 1966 and invoked in January 1977.

(C). The Development of Social Security Policy Under the Third Republic.

Under the First and Second Republics, the objective of social welfare focused on the relief of immediate social contingencies. Therefore, for the general public, there was no modern social security system which is equivalent to the social security programme or pension insurance programme in other countries, concerning the socio-economic contingencies. Only several special programmes were established to provide some financial assistance to those who retired or separated from an organisation in the government or private institution with respective legal provision. These programmes, however, met with only a limited success.

The basic modern social security programmes were first introduced in Korea in the early 1960s. As we can see in the Table 3-3, laws for social security programmes such as public assistance, social insurance, and social welfare services began to be developed.

For the government employees, the law of the Civil Servant Pension Act was enacted in 1962. This act was simply the result of implementing the pension programme clause in the Civil Servant Law which was enacted on 12th of August, 1948, when the First Republic was established. The pension programme clause had not been implemented until 1st of January, 1960, because of the Korean War and the financial situation of the government.⁷⁹

⁷⁹ Chun-Song Choi(1977), Social Security in Korea, Seoul: San Kyung Moon Hwa Sa. pp. 264-266.
In Korean.

Figure 3-3: Social Welfare-Related Legislations, 1961-1986.

Year	Name of Law	Contents(Population).	
1961	Prostitution Prohibition Act	Anti-prostitution(Prostitutes)	A
"	Livelihood Protection Act	Livelihood Protection(Inabled poor)	B
1962	Employment Standard Act	Labour Law(All employees)	
"	Social Protection for Refugee & Meritorious Service Act	Special aid(Patriots)	B
"	Civil Servant Pension Act	Pension(Civil servants)	A
"	Disaster Relief Act	Emergency aid(Victims of disasters)	B
"	Medical Insurance Act	Health Insurance(All citizens)	A
1963	Military Veteran Pension Act	Pension(Military)	A
"	Industrial Accident Compensation	Accident insurance(workshop)	A
1970	Social Welfare Work Act	Base law for social service	C
1973	NWP Act	National pension(All citizens)	A
"	Private School Teacher Pension	Pension(Private school teacher)	A
1976	Medical Insurance Act(Revised)	Medical insurance(All citizens)	A
1977	Medical Aid Act	Medical aid (Poor)	B
"	Civil Servants, Private School Teachers Medical Insurance Act	Medical insurance(Civil servants & Private school teachers)	A
1980	Social Welfare Work Fund Act	Law for fund management	C
1981	Child Welfare Act(Revised)	Child welfare(Age under 18)	C
"	Elderly Welfare Act	Welfare for the aged(Age > 65)	C
"	Disability Welfare Act	Welfare for handicapped	C
1983	Lively Protection Act(Revised)	Comprehensive aid(Deserving poor)	C
1986	National Pension Act(Revised)	Compulsory pension scheme	A

Note: A: Social Insurance.

B: Social Assistance.

C: Social Welfare Service.

It was implemented by the Civil Servants Pension Act in 1962, because the government was concerned with the increasing turnover rate of the government personnel, as the private sector recovered from the effects of the Korean War.⁸⁰ The programme covers only those who served twenty years or more in the government without an interruption. The law also specifies the

⁸⁰ Ibid.

details of the lump-sum provident grant system, which will be given to those who wish to receive a lump-sum payment at the time of retirement instead of annual pension, and to those who served less than twenty years but at least five or more years in the government without an interruption.

For military personnel, the law of Military Pension Act was enacted in 1963. The qualifying conditions and the payment formula are similar to those for the government employees, but unique payment schedules are adopted.

For the employees of sizable private enterprises, the law of Industrial Accident Compensation Insurance Act was enacted in 1963. This social insurance programme was chosen by the labour section of the Social Security Committee⁸¹ to be introduced to Korea, in the light of the historical fact that protection against work-related injury is the oldest and most widespread type of social security measure throughout the world. The law was in effect replacing the industrial accident compensation clause in the Labour Standard Law.

The Medical Insurance programme was chosen to be studied by the Social Security Committee and passed on the last day of the last session of the the Supreme Council for National Reconstruction(SCNR: Military Junta) in the load of laws which were to be passed before the Council was dissolved.⁸² The Social Security Committee originally planned the programme in a comprehensive and compulsory fashion. However, as it was being deliberated by the SCNR, it turned to be a voluntary pilot project rather than a medical insurance programme.

Finally, in relation to the development of social security policy, for the employees of sizable private enterprises and public institutions, legal protection is provided when receiving a lump-sum Retirement Allowance⁸³ from the respective employer. The law of Employment Standard Act enacted

⁸¹ This committee was established to examine and deliberate on matters related to social security system at the request of the Minister of Health and Social Affairs on 20th of March, 1962.

⁸² Professor Sohn analysed the policy-making process and the content of the Medical Insurance Act. See, Joon-Kyu Sohn(1983), *Ibid.*, pp. 108-123.

⁸³ Actually a lump-sum Retirement Allowance programme had been widely prevailed in Japanese controlled institutions while they occupied Korea before 1945. However, even after Japanese moved out from Korea and before the necessary legal provisions were provided for the Retirement Allowance programme, the government remained in effect for many larger organisations to help the living of the retired employees. See, Seung-Yun Lee et.al.,(1971), *A Feasibility Study of Compulsory Contributory Retirement Scheme in Korea*, Seoul: Sogang University, Research Institute for Economics and Business. p. 22.

in 1961 specifies that a lump-sum Retirement Allowance be provided by the employers of organisations when any qualified employee retires or separates from the organisations.⁸⁴

As we can see in the above Table, the development of social security systems in Korea tend to be composed of several stratified and highly particularistic programmes. As Mesa-Lago has demonstrated, the civil servants and the military tend to receive social security protections first, and to maintain levels of social security protection considerably superior to those of other groups in the society. Following these two groups, elite workers in key economic sectors have obtained relatively extensive social security protections. Other organised industrial workers have been given such benefits in a relatively recent period, and those benefits tend to be less extensive, in both quantitative and qualitative terms. With regard to the other urban workers and the agricultural workers, their degree of social security protection is quite insignificant.

However, most of the programmes were not put into effect, because top priority was given to economic and industrial development, and social policy was not a special concern of the government. At this time, social policy was defined by government spokesmen as 'luxuries.' Therefore, the issue of income distribution and equitable social development was not considered that important by Park's Third Republic. The position can be understood as being politically motivated, but there can be few other regimes that have put more emphasis on growth in opposition to equality than the Park government in this period. There are several other reasons why Park was not seriously concerned about the development of social policy during this period. First, it seemed pointless to worry about the redistribution of wealth until there was something to distribute. Secondly, it was thought that rapid economic growth would lead to improved conditions for everyone according to the 'trickle-down' process. Thirdly, so much money was ploughed into economic development that there was precious little left for anything else, especially after the military and general administration had taken its 40 percent share of the national budgets.

⁸⁴ The Article 28 of Employment Standard Act of 1962 specifies that any employer who employs thirty or more workers must pay at least the minimum amount stipulated by the law. Also, anyone employed in an organisation more than a year is qualified to receive the grant with different schedule which depends largely on the number of the years served in that organisation.

Finally, as we will see in the following section, the equity problem was less acute in Korea than in many developing countries. The conclusions of many reports, especially that of the World Bank, on income distribution, that the level of inequality income distribution is low in Korea and that the level has remained stable in the course of high economic growth can--if it is not founded on solid facts--mislead policy-makers of the Korean government, in light of the fact that the World Bank has been exerting considerable influences on the formulation of long-term economic policies in Korea. In fact, Korea was not, until the early 1970s, confronted with the choice of whether equity or growth was to be the primary economic goal: the Koreans in the 1950s and 1960s were situated equitably in their common poverty.

3.4. Income Distribution Until 1960s.

As we have seen in the above details, even though social security policy was not developed, empirical studies on income distribution indicate that Korean income distribution in the 1960s was relatively equitably compared not only to many less developed countries, but also to some developed countries.

In his study of income distribution in Asian countries, professor Oshima concluded that Korea has an index of inequality as low as that of the U.S. and Japan.⁸⁵ Professor Adelman's study suggests that Korea has the lowest level of income inequality among the group of less developed countries, and that although a time-series analysis indicates that several structural changes occurred in the 1964 to 1970 period, the overall degree of income inequality remained unchanged.⁸⁶ The findings of the IBRD-Sussex studies on global and comparative income distribution was no exception.⁸⁷

In their study, Korea is not only rated as a low inequality country in terms of its Gini Coefficient ratio but also as a country showing relatively high annual

⁸⁵ Harry T. Oshima(1970), "Income Inequality and Economic Growth: The post-war Experience of Asian Countries," *Malaysian Economic Review*, Vol. XV. No. 2.

⁸⁶ Irma Adelman(1973), "Redistribution with Growth: The Case of Korea," Mimeographed.

⁸⁷ Hollis Chenery et.al.,(Eds.)(1973), *Redistribution with Growth: An Approach to Policy*, Mimeographed.

increases in welfare. In evaluating Korea's good performance in distributing the benefits of growth, one must note that it is partly a result of the historical events and development strategy.

Since Japanese colonial occupation of Korea ended, several key factors associated with that period provided a favourable climate for equity in distribution of income.

First, there are the two land reforms, which were undertaken in 1947 under the AMG and in 1949 under the Rhee government.⁸⁸ Before the land reform, it is estimated that around 94 percent of farmers were either full- or part-tenants. Redistribution of Japanese-held land in 1947 and a further land reform in 1949 virtually eliminated tenancy, put a ceiling of 3 hectares on paddy holding, and established a structure of very small owner-operated farms. The broad distribution of land contributed importantly to the fact that farmers gained equitably from the growth of farm incomes.

A second historical factor is that the great majority of productive assets were controlled by the Japanese prior to independence. The Japanese owned over 90 percent of industrial assets in 1941. These assets became the property of the Korean government when the Japanese left. The government, reasoning that a slow disposal of these assets would lead to relatively less concentration, took more than 10 years to disperse ownership to the population. This resulted in much less concentration of industrial asset ownership.

A third factor is that the Korean war effected a ruthless further levelling of wealth, with an accompanying breakdown of social networks and the inhibitions of tradition and class to the pursuit of economic opportunities.⁸⁹ Approximately, 20 percent of the capital stock was destroyed between 1950 and 1953 and had to be slowly rebuilt after a cessation.

Four other major events occurred in the 1960s in which government attempts at economic reform had positive distributive effects.

The first was the cancellation of rural usurious loans. At the time, unofficial rural interest rates were often known to exceed 100 percent. The effect on

⁸⁸ For details, see Sung-Hwan Ban et.al.,(1980), Rural Development, Cambridge, Mass.: Harvard University Press.

⁸⁹ EPB(1978), Korea's Economic Development Growth and the Distribution of Growth Benefits, Seoul: Republic of Korea, pp. 1-2.

disposable income of the cancelled debts of the indebted farmers and farm workers was very important from a redistributive viewpoint. This represented a major redistribution from the upper-middle income groups to lower ones in rural areas.

The second event of this period was the confiscation of wealth assimilated illegally by tax evasion, profiteering, bribery, preferential treatment and monopoly. By December 1962, 30 big businesses had been accused and found guilty and they were assessed fines totalling 4.2 billion won. For 5 of the 30 firms, the shock of the magnitude of the fines drove them from the ranks of big business.

The third factor is that the export-oriented development strategy also contributed to the achievement of equity. The accelerating rate of growth in labour-intensive export industries provided a steadily expanding pool of job opportunities to the unemployed and the underemployed, as well as to the growing labour force. In most developing countries, a GNP real growth rate of at least 5 to 6 percent appears necessary to absorb the increase in the urban labour force and provide the minimum necessary conditions for equitable growth.⁹⁰ Korea's steady growth of almost 10 percent per annum since 1962 has more than fulfilled this basic requirement. In the case of labour-intensive development the prospects for equitable income distribution are considerably better. If labour can be absorbed into more productive employment at a pace faster than the growth of the labour force, unemployment and underemployment will be reduced. Substantial employment opportunities in the non-farm sector will result in the migration of rural workers to the cities, and the overall tightening of the labour market will result in an increase in wages while contributing to the reduction of sectoral differentials in household income. When human capital and national wealth are relatively well distributed, as has been the case of Korea, no distributive policy can be more effective than employment creation.⁹¹

Finally, for most of the period since independence, the distribution of education has exerted a positive influence on income distribution. A major adult education campaign had been started in the late 1940s, and primary education was made nearly universal by the early 1960s. In 1945, about 22

⁹⁰ *ibid.*, p. 11.

⁹¹ Sang-Mok Suh (1985), *Economic Growth and Change in Income Distribution: The Korean Case*, Seoul: The KDI, p. 16.

percent of those over 12 years of age were estimated to have been literate; literacy is now estimated at about 90 percent. The breadth and intensity of the improvement in educational attainment has been one of the major elements in Korea's development strategy. The availability of a well-trained and highly productive labour force made possible the rapid expansion of manufacturing activities that intensively used labour, particularly skilled labour, and a rapid growth of labour productivity and incomes.

In summary, Korea's successful performance in growth and income distribution has been based on a mixture of:

- (1). a unique situation: land and asset redistribution;
- (2). a historical event: the Korean war and military coup;
- (3). egalitarian government initiatives: cancellation of usurious debts, confiscation of illegal wealth, increased education and greater employment opportunities.

Thus, in the 1960s Korea had a relatively equitable social and economic base from which to launch its development efforts, and a much higher human resource potential than the great majority of countries with a comparable per capita income level.

3.5. Conclusion.

The examination of the above national characteristics enables us to interpret the development of social security policy prior to the NWP programme in the following ways. There was no historical experience as a basis for development of a welfare system. In the period of dynasties, the government neither played nor was expected to play a role in social security areas. Even the Japanese and the U.S. military occupations following after the dynasties did not implement modernised social security systems. In addition to the lack of roots for institutionalised social security systems, the new Korean government established in 1948 was not able to initiate a social security programme because the authoritarian rule of the Korean government did not enable the people to express their needs and call for social policy; and that the political leaders and bureaucrats upon whom social policy development depended did not concern themselves with this

matter. An unstable political situation and administrative inability following the Japanese, the AMG, and the Korean War were further obstacles to the modernisation of Korean social policy.

This situation somewhat changed since 1961. Korea had political stability, increased administrative capacity, and economic progress. However, other characteristics inherited in the approach to policy-making and administration continued to represent serious obstacles. For example, there was continued suppression of interest groups and the masses in political participation, which might have otherwise influenced the ruling group to meet social needs. Because of the absence of democratic inputs to government, any progress in development of social security development depended wholly on the interests of a small group of political leaders and bureaucrats. However, they were not interested. This presumably resulted from several factors. The government, which had given priority to economic and industrial development, believed that implementation of social security programmes would stagnate national development. This is because the programmes would involve an enormous amount of money, which could be used in economic and industrial development.

Chapter 4. The Emergence of Pension Policy.

4.1. A Point of Discussion.

As we have seen in the previous chapter, the Korean government has enshrined economic growth near the top of the regime's hierarchy of values. President Park's hierarchy of values could not have been more similar. In the first place, economics took priority over politics. In his own words: "In human life, economics precedes politics or culture."¹ So far as higher ends such as reunification and national defence(as well as deferred objectives such as democracy) were seen as being furthered by, rather than in conflict with, economic growth. In the Korean government also the term 'social' of 'social policy' or 'social development' has been used in the contrasting relation to the adjective 'economic' attached to 'economic policy' or 'economic growth.'² Moreover, the association of the value premise which the President has, had very significant impacts on policy-making in Korean bureaucracy, in which hierarchical authority is revered.³ Because of such bureaucratic behaviour, the value of economic growth has not been seriously challenged from inside the governmental bureaucracy. When a single value or a set of values is reinforced to become a single goal criterion, it becomes a constraint upon goal-diversification. Therefore, social welfare policies were in many ways not compatible with economic development in Korean case. The inclusion of social contents in the five-year economic development plans have been proposed or recommended by research-oriented or advisory groups,⁴ which are more or less free from hierarchical orders but have little influence.

¹ Chung-Hee Park(1970), The Country, the Revolution, and I, Seoul: Lollym Corporation Publishers. p. 26.

² Jones and Sakong(1980), Ibid., p. 43.

³ Professor Cho points out that "in the Korean governmental policy-making process, hierarchical order is the most powerful value governing bureaucratic behaviour." See, Suk-Choon Cho(1970), "The Korean Bureaucracy: Authority and Policy Formation Process," Korean Journal of Public Administration, Vol. 8 No. 2. p. 162.

⁴ For example, in July, 1968, the Social Security Committee completed the report entitled "Social Development: The Basic Design and Direction." The report presents five short-term goals and three long-term objectives of Korea's social development planning. In practice, however, the report has aimed to remove various impediments to, or facilitate favourable conditions for, the country's rapid economic growth, rather than to apply an integrated approach to national development.

The Korean government used the five-year economic development plan as the central framework of an action programme. However, it was not until the Third Five-Year Economic Development Plan(1971-1976) that social security had ever been mentioned in the development plan. Even then, there were only several paragraphs related specifically to social security. And especially about social insurance, viz:

"During the Third Plan period, the industrial accident compensation insurance programme and the medical insurance programme will be gradually expanded in the number of beneficiaries. During the plan period, this insurance programme will be expanded so as to cover all enterprise shiring more than 30 employees. The medical insurance programme has been in operation at two selected business firms, one in mining and the other in manufacturing, on a trial basis since the time when the Medical Insurance Law was legislated in 1962. At present a total of 18,000 persons are covered by this insurance programme. On the basis of the experience in these pioneer schemes, the medical insurance programme will be expanded during the plan period."⁵

As can be seen from the above statements, there was no mention at all of a national pension programme. Under the present condition, how and why, then, did the pension issue arrive on the political agenda in the early 1970s? During the New Year's Press Conference, on 12th of January, 1973, President Park suddenly disclosed that "the government would organize a social security pension system under which the government will pay retirement pensions to all retired workers, disability pension to both mentally and physically retarded persons, and a bereavement pension to bereaved families. It would be effective from 1st of January, 1974."⁶

To have a proper understanding of policy-initiation(i.e., how and why pension policy was initiated and brought to the attention to government) we will examine the policy backgrounds in relation to the four theoretical approaches which we examined in Chapter Two. This is because, as we

⁵ The EPB(1971), The Third Five-Year Economic Development Plan, 1972-1976, Seoul: Republic of Korea. pp. 91-92.

⁶ Chong-Kee Park(1975), Social Security in Korea: An Approach to Socio-Economic Development, Seoul: Korea Development Institute. pp. 104-105.

mentioned already, the form in which social security exists today is a reflection of what has happened in the past. A review of those factors which have shaped its development will produce clues for a prediction of its future. In other words, as I shall demonstrate throughout this chapter, we have to understand the emergence of pension policy in relation to the major state of affairs with which the Korean government was faced at that time. It relates to the regime's responsiveness to internal as well as external changes to political and socio-economic development. Building on this argument, I contend that the voice of society and the policy-makers in the government *vis-a-vis* that of the chief executive could have been strengthened in the process in which the pressures besetting Park's long-term political strategy become ever more present.

Entering into the 1970s, Korea was undergoing a series of uncertain courses. First of all, in the political sphere, in order that he might succeed for a third term in 1971, Park tried to amend the constitution in 1969. This constitutional amendment cost the regime its legitimacy. The power struggle for the leadership succession arose within the ruling elite coalition in 1969, and the 1971 presidential election almost brought about a defeat for Park. From this event, Park learned that he needed the reorganisation of his ruling coalition as well as the state structure. As regards the economy, although the export-oriented development strategy of the Park regime achieved a rapid economic growth, it also produced numerous socio-political tensions in the Korean society in late 1960s and early 1970s. The regime faced growing public demands brought on by problems such as inflation, balance-of-payments deficits, foreign indebtedness, income inequality, and economic recession. In this situation, there emerged a growing voice in the government recommending a fundamental reassessment of the export-first programme. It was suggested by some others that the programme had reached its limits and that it should cease to play a predominant role in leading the nation's industrial development. In the social area, the state-led development with export-oriented strategy produced a serious balance between manufacturing industries and agriculture sectors. Further, this strategy also produced serious problems in working conditions and labour activities. Due to an international division of labour, the Korean economy mainly utilized its 'cheap wage' as a principal advantage in competition in the international market. Recently mobilised labour, however, seriously

challenged these working conditions and low wages. In 1971 the anti-government demonstrations and disputes of workers peaked at the highest point since Park had consolidated power in 1961. Finally, internationally, following the Nixon Doctrine in 1969, the controversy over the reduction of US aid and the withdrawal of US troops in Korea were viewed as a warning that Koreans must rely on themselves for defence and self-reliance. Perhaps the first, and one of the most serious shocks to Korea, was Nixon's New Economic Policy in 1971, which reflected the rising protectionist mood of the country.

All these environmental pressures limited the alternative choices of the Park regime to reduce the serious gap between state and society in the early 1970s. To handle these political and socio-economic problems, the Park regime actually pursued a series of specific policies. The results were restructuring state structure and development strategies. As regards political restructure, between the two alternatives of democratic way and authoritarian path, Park chose the Yushin coup which strengthened state power to become more authoritarian rather than democratic. The Fourth Republic was established by the Yushin Reforms through a revision of the constitution in order to institutionalize the long dictatorship of Park. In the economic area, following a period of muddling through, the government adopted an alternative industrial path, i.e., export-led heavy and chemical(HC) industrialisation as the state direction in industry. An industrial choice that was almost entirely new to Korea. Finally, the pension programme emerged with dual-purposes: socio-political palliation and economic acceleration. This is because the pension programme can serve as a desirable socio-political objective by providing income protection for most economically vulnerable groups, such as the retired aged, widows and orphans, and the disabled. In addition, it serves as an important economic objective by providing a source of funds to finance economic development.

In this chapter, therefore, we will discuss more specifically the political, socio-economic, and international environments which were the backgrounds of the emergence of the pension programme at this time. The actual NWP policy-making process will be examined in the following chapter.

4.2. The Background of NWP Policy-Initiation.

4.2.1. Political Environments.

The period of political change may be divided into two parts: prior to 1972, the period with the characteristics of relatively competitive democracy with a bipartisan system; and after 1972, the rise of the authoritarian Yushin(Revitalization) regime, completely retreating to executive dominance maintained through manipulation of all political and economic mechanisms. As the principal motive of the military coup in 1961 was an intermilitary power struggle within the military rather than the restoration of democracy through the revolution, Park and his followers tried to secure their power by promoting the constitutional amendment for Park's unlimited presidency in 1969. In spite of strong criticism, the constitutional amendment was subsequently endorsed in a popular referendum held on 21st of December 1969. In this process, there was a nationwide opposition movement which was organized by the students, religious groups, intellectuals, and opposition politicians. The protests were continued all the year.

According to the new constitution, Park competed with his opposition leader, Dae-Jung Kim, at the presidential election on 27th of April in 1971. During the election campaign, the basic state ideology of the Park regime such as 'anti-communism' and the priority of 'export-led economic development' was challenged by Kim. Kim, for instance, publicly proposed the abolition of the newly established Reserved Army for the Defence of the Home Country, instead, he suggested the establishment of a regional security system among four regional powers(the US, Japan, China, and USSR) to reduce the North-South Korean conflicts. Widely politicizing the developmental issues, Kim also argued that Park's developmental path would create over time stark imbalances between cities and rural areas, rich and poor, and big business and medium-sized and small firms in that opportunities and the welfare of the mass public had been emasculated in the developmental process.⁷ Neither could the military dictatorship be prolonged under the guise of modernization of the fatherland, nor the developmental policy centering on economic growth alone any longer be justified. Once elected, he said, he would realize a 'mass-participatory

⁷ Dong-A Ilbo, 10 October, 1970.

economy' and 'mass-participatory democracy,'⁸ in which various sectors of the society could join in the national developmental process and the opposed citizenry would enjoy the benefits of democracy such as the system of regional autonomy, the independence of the legislature and the judiciary from the executive branch, freedom of the press, and the right to organize labour unions.⁹

Although Park barely won this election, his victory would not grant him the privilege of running the State with comfort. While the voters allowed Park to rule for the third term, they gave the Opposition Party a sufficient force in the National Assembly to serve as a restraint on the government. On 25th of May, 1971, the Opposition NDP won 65 seats, while the ruling DRP gained 86 seats in the National Assembly.¹⁰ The result compelled President Park to modify his strong stewardship in running state affairs. The turnout did not provide enough seats for the two-thirds vote which would allow the Park regime to revise the constitution again. The 1971 National Assembly elections also provided the focal point for university students who criticized alleged election irregularities, compulsory military drill and severe corruption in the higher echelons of government. This political situation was very difficult for Park to handle with the existing state structure. Since the Park regime had regarded economic development as 'the key of its own political success,' political stability and public order for sustaining growth were required.

Processed in an intimidating political atmosphere, the Law Regarding the Special Act on National Security was proclaimed on 2th of December, 1971, to forbid all social disturbances. It contained the six-point national emergency programmes that the President might activate, when necessary:

- (1). To control prices, wages, and rents for specific periods;
- (2). To issue a national mobilization decree to mobilize human and material resources for national defence purposes on a nationwide or regional scale;

⁸ For election on this theme by Kim, see Dae-Jung Kim(1985), Mass-Participatory Economy: A Democratic Alternative for Korea, Lanham, MD: University Press of America Inc.,.

⁹ For more of the contents of election campaigns by Kim and the NDP, see the Dong-A Ilbo, 24 March and 5 May, 1971.

¹⁰ For more details, see C.I. Eugene Kim(1972), "The Meaning of the 1971 Korean Elections: A Pattern of Political Development," Asian Survey, Vol. 12 No. 3. pp. 213-224.

- (3). To evacuate inhabitants or materials from a specified area for purposes of military operations;
- (4). To ban outdoor assemblies and demonstrations;
- (5). To prohibit publication of articles "affecting national security, leading to the split of national opinion, or promoting the confusion of social order," and
- (6). To restrict strikes by labour organizations.

The measure pointed out that persons who violated the measures under a state of national emergency should be sentenced to a maximum of ten years in prison. Comprehensive as they were, endowing the chief executive with all the power necessary to mobilize the state and society, the major aspects of this Special Act precisely pointed to Park's wish to manage the then-current guidelines exacerbated by the negative consequences of his long-term political strategy. Briefly, the economic provision of the Special Act enabling Park to regulate various aspects of the economy was soon followed by such emergency measures as the August 2nd Emergency Measure. This measure was primarily geared to getting around the structural recession, which, according to one major government voice, was caused in large part by the export-first strategy. The labour provision of the Special Act reflected also the ever-increasing labour unrest, which tended to go beyond the capacity of the then-existing government's restrictive measures on labour. The Clauses regarding the political actions of the social groups were directly geared to suppress the anti-Park movements of the time, which increasingly formed a tacit alliance. Finally, the emergency and the national security provisions(including the presidential power to declare a 'state of national emergency,' to 'request national mobilisation,' and to 'enjoy greater freedom of action in national security budgets') would additionally empower Park to suppress and muzzle his political opponents as well as to find a solution for the national security problems.

In short, the economic, socio-political, and national security problems eroding confidence in Park's ability to govern the nation were to be accommodated, at least in theory, in a tightly staged state reform unilaterally claimed by President Park. The security concern was the chief reason that the Park administration resorted to extracurricular political activity in this period. However, when one scrutinizes the core contents of the executive-sponsored bill hastily processed by the Park administration only a few weeks after the announcement of the Special Declaration, it can be seen

that the national security concern was not the sole source of such an unusual move by the State. Rather, the declaration of a measures was motivated by the domestic politics.

4.2.2. Economic Environments.

Economic strategy under Park fell roughly into two periods: namely, pre- and post-Yushin Reform. As we have mentioned in the previous chapter, the First Five-Year Plan(1962-1967) launched by the Park regime had been initially aimed at import substitution and domestic capital formulation. With the sharp decline of US aid since 1957, however, Korea could not afford to promote her economy in an import-substitution pattern because her initial economic conditions for growth were by no means favourable. As a result, the First Five-Year Plan was revised in 1964, shifting the strategy from import-substitution to export-promotion with the import of foreign capital and technology. Since then, the export-promotion strategy, based on the maximization of export through the intensified production of light manufactures, was depicted as a sort of panacea for solving seemingly difficult state tasks. Promoted in such a way throughout the sixties, Park's export-first strategy was studded with many auspicious results. Indeed, as Park had hoped, Korea experienced unprecedented export increases, which, in turn, provided Korea with rapid industrial as well as economic growth. As shown in Table 4-1, a moderate rate of growth was recorded to become one of the most rapid in the world. In 1970 constant prices, real GNP grew at an annual average rate of 6.3 percent during the first half of the decade and at 11.1. percent for the next five-year period. In terms of per capita, the average annual growth rate was 3.4 percent between 1961 and 1965, compared with 8.9 percent for the second half of the decade.

Further, Park was able to enjoy three major political victories(1963, 1967, and 1971), in each of which he claimed that his successive tenure in office was necessary not to interrupt the 'modernisation of the fatherland' via export promotion. As a result of this favourable political position of Park, supported by unprecedented economic performances, export promotion had become couched at the core of Park's politics for his long-term strategy for cohesion.

Table 4-1: GNP and Growth Rates in Korea, 1960-1972 (In 1970 Prices).

Year	GNP (Billion Won)	Per Capita GNP (Thousand)	Growth Rate: GNP	Growth Rate: Per Capita
1960	1,130	45.74	---	---
1961	1,185	46.45	4.9%	1.6%
1962	1,221	46.55	3.1	0.2
1963	1,328	49.21	8.8	5.7
1964	1,442	52.10	8.8	5.9
1965	1,530	54.00	6.1	3.7
1966	1,719	59.36	12.4	9.9
1967	1,853	62.73	7.8	5.7
1968	2,087	69.18	12.6	10.3
1969	2,401	78.09	15.0	12.9
1970	2,589	82.73	7.9	5.9
1971	2,827	88.81	9.2	7.4
1972	3,024	93.44	7.0	5.2

Source: The Bank of Korea(1973), National Income Statistics Yearbook: 1973, Seoul. pp. 116-117 and 208-209.

Park assumed in his visionary export politics that increase in exports, spreading out their positive effects to elsewhere in the nation, would result in a self-supportive economy, stable politics(in Park's term, democracy, or the democratic welfare state), and an independent capacity for national security.

Nevertheless, the first consequence of the success of Park's export politics(e.g., rapid industrial expansion via export promotion) would not guarantee over time that the broader goals further envisioned by Park in his export politics would take care of themselves. After less than a decade of export promotion, Park's long-term strategy began to face the spectre of serious strains, and the myth of the export strategy as Park's self-legitimizing strategy began to fall apart. What, then, had been going wrong with the export-first programme? In other words, in spite of many apparently successful economic and political outcomes of the export-first strategy led by the light industries, why was the Park administration beginning to fundamentally question the viability of the programme *per se* and coming up

with the idea that the government should bring an end to the previous industrial course? Therefore, we will examine some economic environments within which the regime faced growing public demands and then we will focus upon the impact of the crisis of Park's long-term political strategy(i.e., the export politics) on the direction of the Park government's industrial policy.

A. Inflation.

Perhaps the most serious problems for the Park regime was a sharply increasing rate of inflation by 1971. The rapid economic growth rate of Korea had led to inflation as well as massive trade deficits despite a 37 percent annual rise in exports since 1964. The government had been mainly responsible for the inflation which had adverse effects on economic growth and the balance of payments.¹¹ The government had monopolized monetary policy. The Monetary Board had been under the control of the Finance Ministry with veto power against the Board's decisions since 1961. The government owned all the commercial and special banks. When the money supply grew by more than the rate of growth of real output of goods and services, the result was inflation. Government spending had been another reason for Korea's persistently high inflation rate. The real increase in expenditures came from investments, which were 20.0 percent of government spending in 1961-1970 but amounted to 24.3 percent in 1971-1973. The government also had used political pressure to secure the approval of bank loans, which accounted for more than 60 percent of the total investment financing of major business firms in Korea. Finally, inflation was caused by the increasing costs of imports which contributed to the upward price spiral. The government set and monopolized the prices in public services and major commodities such as oil, gas, and coal.

The deleterious effects of acute inflation were great. Inflation put added pressure on the country's balance of payments by encouraging imports and discouraging exports at an over-valued exchange rate. Domestically, inflation affected the economy adversely by promoting the wrong kinds of investment, and channelling productive energies into activities promising

¹¹ Seung-Hee Kim(1976), "Economic Development of South Korea," In Se-Jin Kim and Chang-Hyun Cho(Eds.), Korea: A Divided Nation, Maryland: The Research Institute on Korean Affairs. pp. 128-135.

high speculative profits, but not socially desirable. In addition, continued inflation had the potential of leading to social and political unrest by lowering the purchasing power of the middle classes and diminishing incentives to work. Inflation had become a major social issue, with urban groups feeling that they were suffering disproportionately from its consequences. Various tactics of the government were attempted, such as price controls, but with little success.

B. Trade and Balance of Payments.

As can be seen in the Table 4-2, Korea's trade deficits exhibited a system of improvement in 1963-1964, when the export-first programme was about to be launched. After that time, however, the deficits rapidly worsened, showing, for instance, an almost quadrupled rate of increase in 1964-1970. Likewise, the balance of payments postures, which also improved a great deal in the early years of export promotion(i.e., from 1963-to 1966), sharply deteriorated, reaching as low as a deficit of \$623 million in 1970.

Table 4-2: Korea's Trade Balances and Balance of Payments, 1963-1970.

Year	Exports	Imports	Trade Balance	Balance of Payments
1963	86.8	497.0	-410.2	-146
1964	120.0	364.9	-244.9	-26
1965	175.1	420.3	-245.3	-9
1966	250.3	679.3	-429.5	-103
1967	334.7	908.9	-574.2	-192
1968	486.2	1,322.0	-835.8	-440
1969	658.3	1,650.0	-991.7	-549
1970	882.2	1,804.2	-922.0	-623

Note: Currency--Million US \$ at current prices.

Source: EPB(1980), Handbook of the Korean Economy, Seoul: Republic of Korea. pp. 195-197.

While foreign capital inflow had mainly contributed to promoting the exports, the burden of foreign loans was increasing. The increasing foreign debt was due to the Park regime's incentives measures to induce foreign

capital inflow under the guidance of AID. As such, Korea's trade and balance of payments deficits were serious built-in tensions of Park's export-first programme. However, preoccupied with high-growth performances via export target maximization, the Park administration paid little heed to the growing deficits problem. In fact, inducement of foreign input, expansively defined, was much encouraged by the Park administration which was anxious to expand the nation's export capacities for the sake of export maximization. Yet, concern was rising over the costliness of such industrial structure, as the trade and payments deficits grew at unprecedented rates toward the end of the sixties and, further, as the growing deficits become associated with many problems in the economy such as the mounting foreign debts.¹² In 1971 when the Second Five-Year Plan ended, foreign debt reached more than \$3,000 million and the amount of total debt service payments of principal and interest due for the year was one-fifth of the size of total exports in that year.¹³ Total capital inflows constituted 83 percent of export earnings in 1969. The resulting burden of foreign capital redemption has been a serious problem since then. In fact, as the major indicators of Korea's mode of incorporation into external markets, such as trade balance, balance of payments, and foreign debts continuously deteriorated over the years regardless of rapid industrial expansion, criticism of the fundamental philosophical basis of Park's developmental course had been increasingly renewed. As the political opposition was once more bringing such charges to the forefront of Korean politics after Park's developmental strategy had been in place for some years, Park again faced the social challenges mounting against his design for industrialization. Toward the end of the sixties, the growing number of student protests had become increasingly radicalized. They pointed to the fact that the nation, by way of Park's political-economic programme, had already become a 'foreign capital-dependent' society in which nothing but corruption prevailed, jeopardizing the future course of national development. Albeit with different tones, an increasing number of academicians also brought out similar themes through various channels of public expression. They stated that the economy's external linkages, mainly expressed by trade and balance of payments

¹² Korea's indebtedness grew from \$69.2 million in 1962 to \$301.3 million in 1965 and then, to \$2,570.0 million in 1970. See Ann O. Krueger(1982), The Developmental Role of the Foreign Sector and Aid, Cambridge, M.A.: Harvard University Press. p. 145.

¹³ Ibid., p. 146.

deficit and foreign loans, had gone too far, and that the nation's industrial structure was in desperate need of amelioration.

C. Economic Recession.

A cursory look at the economic condition during the early seventies would defy the view that Korea was in deep trouble. The economy, as expressed by its aggregate indicators such as GNP growth rates, seemed to perform well. For instance, in 1970, the growth rate was 7.9 percent. In the following two years, high growth performances continued and they marked 9.2 percent in 1971 and 7.0 percent in 1972. While a sharp retrenchment trend in the growth rates seemed quite evident in those years, especially when those rates were compared with the 1969 GNP growth rate(15.0%), on the surface the economy still appeared to be in good shape. Probably, it was because of these aggregate indicators that in spite of the serious tension so evidently building up in Korea's industrial structure in the latter part of the sixties, the government was hesitant to resort to any comprehensive undertakings to initiate a fundamental change in its long-followed industrial course(i.e., export-led light industrialization). Indeed, it could have been felt that even if external linkage of the nation's industrial course was riddled with some difficulties owing to a deteriorating industrial structure, it would be premature to limit the growth of light industries, which still brought in considerable amount of foreign currency and, thereby, contributed to a 'still-high' growth performance.

However, as central planners soon learned that the external linkage problems were not the only pressures it had to deal with, and that there existed as well signs of internal destabilisation. One of the developments putting the government into such a position was the faltering performance of manufacturing firms, which had hitherto led Korea's rapid industrial expansion. Throughout most of the sixties, the Park administration provided manufacturing firms with policies that might undermine the very prospects of the nation's course of manufacturing growth. The government encouraged firms, especially those engaged in one way or another in export activities, to borrow from external sources of finance to expand their production

capacities.¹⁴ Not only were domestic credits made amply available to those firms, but also the government actively processed foreign loans via aggressive diplomacy. It was generally thought among the economic planners that as long as those firms contributed to maximizing export sales and brought foreign currency to domestic markets, over-extension of those firms to external credits could be tolerated. However, approximately a decade after the initiation of this government policy toward manufacturing firms, 'the more the better' loan policy turned out to be quite costly. The debt-equity ratio of manufacturing industries in general was relatively healthy in the initial years of export promotion. For example, the ratio in 1965 was one-to-one. Yet, after some years of implementation of the government's lenient loan policy toward manufacturing firms, the overall financial structures of manufacturing industries deteriorated sharply, reaching, for instance, as low as one-to-four level in 1971. Further, as these firms became heavily obliged to repay external debts, their profit margins were said to be in sharp decline. Indeed, the return on investment of manufacturing firms dropped from 7.1 percent in 1966 to a somewhat stunning level of 0.9 percent in 1971.¹⁵ Had these unhealthy effects been limited to these firms, the government could have let these firms suffer the costs of this extremely negative situation because these problems would have been largely firm-level problems. Yet, the consequences of this state of manufacturing firms would hardly be limited to the firm level. In the middle of 1969, when exports slowdown,¹⁶ foreign debts constantly soared,¹⁷ and the government squeezed credits. In such a context,¹⁸ the government was under serious pressure to deal with the stumbling manufacturing firms exporting negative effects elsewhere in the economy. In 1969, the government had to manage more than thirty firms

¹⁴ The EPB(1982), Economic Policy in the Age of Development: The Twenty-Year History of the EPB, Seoul: Republic of Korea, pp. 86-90. In Korean.

¹⁵ Kae H. Chung(1974), "Industrial Progress in South Korea," Asian Survey, Vol. 14 No. 5. p. 452.

¹⁶ The rate of growth of exports fell from a high of 42 percent in 1968 to 34 and 28 percent in 1969 and 1970. See, David C. Cole and Yung-Chul Park(1983), Financial Development in Korea, 1945-1978, Cambridge, M.A.: Harvard University Press. p. 145.

¹⁷ The net indebtedness of Korea increased from \$301 million in 1965 to \$2,570.0 million in 1970 and then to 3,044.2 million in 1971. See, Krueger(1982), Ibid., p. 145.

¹⁸ The tight monetary policy of the government went to such an extent that it reduced the rate of expansion of domestic credit from 85 percent in 1968 to 27 percent in 1970. See, Cole and Park, Op. Cit., pp. 160-161.

that simply could not afford the loans that they had drawn.¹⁹ Apart from these firms, ninety other firms were being threatened with bankruptcy.²⁰ It was reported that almost 95 percent of the total capital invested in them was derived from loans. As could be seen, the effects of this state of manufacturing firms on the economy would be predictably costly. Furthermore, the sharp retrenchment trends in manufacturing growth and overall investment increases, accompanied by a number of bankruptcies declared by firms, also meant that unemployment would rise considerably.

To reverse such ominous trends in the economy, the EPB announced in 1971 a major currency devaluation(18%) in the hope of stimulating exports and, thereby, activating the investment activities of manufacturing firms.²¹ Yet, apart from the many potential positive effects it might have had on the economy, the devaluation would only increase the burden of firms because the devaluation would increase the cost of foreign imports and the debt burden of heavily indebted firms. Further, and for more immediate purposes, the government also installed in the Blue House the Special Committee for the Rearrangement of Ill-Managed Firms, in 1969, and the Committee for the Rationalization of Corporations, in 1971, in order to minimize the negative effects of the ill-managed firms on the economy. In fact, with the US quota on Korean textile exports in late 1971 and with foreign lending institutions such as the IMF forcing the government to place a ceiling on loans from commercial sources, more firms were facing bankruptcy. This only contributed to the distressing state of investment activities in Korea.

D. Effect of the President Nixon's New Economic Policy.

By 1970 US trade had declined as a percentage of total world trade and turned temporarily in 1971 to a balance-of-trade deficit. The American economy was approaching a crisis, with stagnant productivity, double-digit inflation in 1973, and the first trade deficit in the twentieth century. On 15th of 1971, Nixon dropped his bombshell, the New Economic Policy. The policy

¹⁹ See, The Planning Office(1979), A Study on the Development of Industrialization in Korea, Seoul: Korea. p. 218. In Korean.

²⁰ Joungwon Alexander Kim(1976), Divided Korea: The Politics of Development, 1945-1972, Cambridge,M.A.; Harvard University Press. p. 277.

²¹ Cole and Park, Ibid., p. 160.

imposed a 10 percent surcharge on Korea's export goods and limited the annual growth rate of Korea's non-cotton textile sales in the US to 7.5 percent. The pending textile quotas placed on Korea's most important export became extraordinarily threatening to Korea's economy as a whole. In 1971, textiles accounted for over 35 percent of the foreign exchange earned, growing from \$173 million in 1968 to \$432 million in 1971. The protectionist policy of the US was expected to cost Korea an estimated \$100 million annually, or more than the US aid that Korea had received in any year since the introduction of the First Five-Year Plan.²² According to Dong-A Ilbo, American protectionism was likely to deprive Korea of \$850 million in expected earnings from the coming Third Five-Year Plan(1972-1976).²³ Indeed, the growing protectionist policy of the US raised questions about Korea's export-led growth strategy dependent on the outputs of light industries. Ironically, the strategy had been proposed and dictated by the US since the early 1960s. Trade dependence upon the US made the Korean economy highly vulnerable to the surcharges and quotas on imports imposed by the Nixon administration.

E. Problems of National Income Redistribution.

As we have examined in the previous chapter, Korea's level of income inequality has been reported to be low. Based on Oshima, Adelman, and others' studies, Korea is described as an exception to the Kuznets hypothesis²⁴ that the secular behaviour of inequality follows an inverted 'U-shaped' pattern, with inequality first increasing and then decreasing with development. In reality, however, the trend of inequality has worsened at least during late 1960s and the early 1970s. This is because rapid economic growth strategy under Park's rule was attained at a considerable income inequality.

²² Joungwon Alexander Kim(1971), "The Republic of Korea: A Quest for New Directions," Asian Survey, Vol. 11 No. 1. p. 93.

²³ Dong-A Ilbo, 18 December, 1972.

²⁴ Kuznets observed that income was distributed more unequally in less developed countries than in more developed ones, and concluded that economic and individual growth seemed to increase income inequality. See, Simon Kuznets(1954), "Economic Growth and Income Inequality," American Economic Review, Vol. 45. pp. 1-28.

It has no exaggeration to say that throughout the period of rapid output growth, government authorities did not pay any serious attention to the gap between the rich and the poor, except for dismissing any argument about this issue as dangerous or even "communist" propaganda. This constitutes a fundamental difference from the process of development planning in the cases of Japan and Taiwan, even though Korea is often cited as having experienced a similar pattern of economic growth. During the period 1964-1968 Japan introduced a special plan for correcting distortions(including inequalities) occurring in the process of rapid output growth, which followed upon the commencement of the country's Five-Year Economic Development Plans in 1956. In the case of Taiwan, the philosophical guidelines of Sun Yat-Sen's "livelihood of people", incorporated in the Five-Year Economic Plans, is said to have expressed from the beginning a concern for equity.²⁵ In the Korean case, at first, rural needs were neglected in the early years so that the gap between urban and rural life-styles and standards of living widened throughout the 1960s. Most of the developmental economic programmes were city oriented, leaving the countryside virtually untouched. Secondly, the problem of rural-urban income disparities was but a part of the large problem of income distribution between the rich and the poor. The income of the poor was threatened by uncontrolled inflation, ill-managed taxation, and the performance of the regime's investment in a selected few corporations, despite the nominal rise in their income as shown in largely meaningless national statistics. As Table 4-3 shows, the year 1970 was a turning point of the Korean income distribution. For example, the top 20 percent of the people in Korea had steadily increased its share of the total national income from 41 percent in 1970 to 45 percent in 1976. The sharp and visible widening gap between the rich and the poor created a psychological problem of democratization in the nation. Finally, the rising expectations engendered by the economic success produced the major internal problems of the Park regime. Since the trend of inequality had worsened, it might have led the Korean people to pay attention to the issue of distributive equity. Now that high growth has been maintained over a decade, with that kind of growth policy expected to be continued for many years, the Korean people were obviously keenly interested in learning how the government would now become active in its distribution policy. This

²⁵ Dae-Hwan Kim(1985), "Rapid Economic Growth and National Economic Integration in Korea, 1963-1978," Unpublished Ph.D Thesis, Magdalen College, University of Oxford. p. 243.

growth of concern for distributional equity is rooted in the various political, economic and sociocultural factors of the society. During the past decade concern for equity has been raised by several factors of Korean society. Many university professors were the first to point out the "importance of distributive equity" in economic development policies. They warned of the inadequacy of "trickle-downism" which they believed dominated the thinking of Korean policy-makers.²⁶ The mass public also has shown a strong concern for equitable redistribution of income. Most Korean people believed that a severe income gap existed between the rich and the poor in society.

Table 4-3: Income Share in Selected Years, 1965-1980.

Income	1965	1970	1976	1978	1980
Lowest 20 %	5.8	7.3	5.7	5.2	5.1
Low 40 %	19.32	19.6	19.6	15.5	16.1
Middle 40 %	38.9	38.8	37.8	37.8	38.5
Upper 20 %	41.8	41.6	45.3	46.7	45.4
Gini Coefficient	0.344	0.332	0.391	0.400	0.389

Source: EPB(1981), Korean Economic Indicators, p. 15.

4.2.3. Social Environments.

A. Conflict with the Federation of Korean Industries(FKI).

The disenchanted voices of the Federation of Korean Industries regarding the way in which the business community operated began to burgeon, beginning in the late sixties. As the number of firms subject to serious problems began to rise, the FKI issued A Scheme on the Purification of the Political, Economic, and Social Atmosphere in February, 1971. In this statement, the FKI argued mainly that a number of the problems many manufacturers faced during that time had their roots in 'too many government demands' on the business community. These demands, according to the FKI, tended to push firms to serve the goals and targets set

²⁶ Yong-Duck Jung(1982), "Income Redistribution in Korea: Causes for the Growing Concern," Journal of East and West Studies, Vol. XI No. 1. p. 29.

up by the government that often ran counter to the interests of industrial firms.²⁷ Claiming in that scheme that the previous institutional working in which business operated was essentially an 'authoritarian political system,' the FKI called for the abolition of the 'supremacy of politics over economics.' This supremacy was said to exist in the business environment because of excessive government intervention via the financial system and because of the government's direct 'guidance for corporate direction.' Going a step further, the FKI also suggested in April that the 'government-supplied' mode of economic operation had already reached its limits and that government measures toward business should from then on be based on the 'free market' principle.²⁸ To be sure, it was claimed that the size of firms expanded a great deal under the government's strenuous efforts to spur export activities. These efforts, in turn, according to the FKI, rendered favourable credits to many manufacturing firms.²⁹ Yet, as these credits were tied to expanding the production capacity of the firms to meet the predetermined macro-targets, a number of manufacturing firms suffered extremely vulnerable financial strictures and rapidly falling profit margins, both of which, in turn, contributed to the exploding number of business failures. The better part of these firms' business problems, whose degree of seriousness became more and more intense than ever before, was said to have been caused by excessive government direction of the economy. As the economy slipped into the backwash effects of the high growth of the sixties and, in particular, as the recession of 'August 1971-January 1972' was felt by the business community to be the first 'full-hedged recession' since the beginning of industrialization, the FKI's criticism of the government became more and more acute.

Compared with the earlier position of the FKI that it would become 'a standard bearer of industrialization of the nation' by exerting 'immediate and focused effects in concert with the national policy,' the position taken by the FKI approximately a decade later was quite a bold one. Not only did the FKI stage direct attacks on the government's way of conducting politico-economic operations, by saying that it was essentially 'authoritarian,' but also it recommended the new policy direction. In normal times, such

²⁷ See, The Federation of Korean Industry(19xx), The Twenty-Year History of the FKI, Seoul: Korea. pp. 237-240. In Korean.

²⁸ The FKI(1971), "The Resolution for the Innovation of Economic Operation," In Ibid., pp. 461-462.

²⁹ Ibid., p. 249.

recalcitrant voices from private firms would not carry that much weight, given their enormous dependence on the government, which was often depicted as "the maker and at times the breaker of the conglomerates." Yet, facing a seemingly difficult economic condition in this period as well as elections to be held in the middle of 1971, the government could not be totally indifferent to the claims of the FKI.

B. Conflict with the Labour Unions.

The Park regime attempted to close channels of political access to the labour unions so as to deactivate them politically, not only by means of repression but also through legal restraints. The elites of state forced the union movement into a purely business or economic unionism. They did not aim at strengthening labour as a ruling group's coalition partner and even did not attempt to employ inclusionary corporatist policies to enable the working class to participate in the political community as had existed in Brazil, Argentina, and Peru. Rather the Park regime was characterized by Stepan's 'exclusionary corporatism,' in which the ruling elite attempt to construct political order and economic efficiency through coercive means, excluding autonomous organisations within the system.³⁰ Because the primary factor which contributed to the successful economic development in Korea was the abundant and relatively skilful labour force, when the Park regime shifted gear toward the export-oriented growth strategy in 1964, Korean workers were not lacking the latent talent needed for being industrious on the job. Reasonably well educated and often highly experienced, the Korean workers had another important attribute, namely, adherence to Confucian beliefs, which place a high value on loyalty, punctuality, hard work, and respect for authority. These initial conditions were attractive to the multinational corporations who were seeking to move beyond the national boundary, particularly to the manufacturers of the declining light industry sector in Japan as well as the US in the 1960s. In addition, with no natural resources except its cheap work force, the cost of labour had been a critical issue to the Park regime. As a result, the regime's effort to keep wages low and control the labour movement had resulted in

³⁰ Alfred Stepan(1978), *The State and Society: Peru in Comparative Perspective*, Princeton: Princeton University Press. pp. 76-77.

even greater repression than the more publicized wave of arrests and trials of dissident students and intellectuals. Whenever labour movements engaged in an uprising, they were severely crushed and repressed, following the anti-communism ideology, and often mobilized in the interest of authority.

In response to increasing activation of labour union movements after the student uprising toppled the Rhee regime, the military coup leaders in 1961 dissolved the trade unions. In 1963 the KCIA unified the unions under a single national centre, selecting about 30 labour representatives to be trained for organising new labour unions.³¹ The state elite founded the Federation of Korean Trade Unions(FKTU) and the constituent national industrial unions, reorganizing them in a top-down manner. Laws banned labour unions from participating in any activities for party politics such as by collecting political funds from its members and by using the funds for political purpose. The Park regime announced in December 1969, another rule to control the labour situation, namely, the "Special Law for the Labour Union and the Labour Dispute within Foreign-Invested Factories." According to the law, workers were prohibited from engaging in labour organisations and participating in any sort of strike against foreign investors. Thus, the basic rights of workers were stripped away to attract foreign investors.

In this situation, the feebleness of the labour unions had been one of the workers' major problems. Unions were legal by the law, but 620,000 of the 1.5 million workers belonged to the nationwide FKTU which was strictly controlled by the KCIA. Union activity was hedged on all sides by legal restraints. No union could be set up in a foreign-owned company without the management's consent. Collective bargaining was permitted in theory, but the Government Office of Labour Affairs had the right to impose a settlement. Strikes were banned. Agents of the KCIA were stationed openly in every union office, and they attended election meetings to dictate the results. Besides the direct repression of opposition by the legal restraints, the regime operated in tight secrecy and gave little information to the public in a strictly censored press.

³¹ Jang-Jip Choi(1984), "A Corporatist Control of the Labour Union in South Korea," Korean Social Science Journal, Vol. 11. p. 30. For more detail, see, Nak-Chung Kim(1982), History of Korea's Labour Movement, Seoul: Chongsa. p. 30.

Nevertheless, the workers came increasingly to know how to use their representative organisation as a useful instrument within the given legal framework when students, dissidents and religious sectors helped the labourers take collective action. Ever since the theory of comparative advantage was strongly emphasized by the government on the grounds of international competitiveness, Park followed the theory with avengence. Whenever and wherever possible, the President advocated that an adequate wage level was the key to export success, which, in turn, was taken as the core of his scheme for national development. Yet, as this policy emphasis did not include lenient labour provisions over an extended period of time, the argument no longer had persuasive power over industrial workers, who became increasingly disenchanted with the 'myth of export politics.'

At the end of the 1960s, the Park regime was faced with problems in the labour sector due to inflation and a low-wage policy based on the pursuit of export-oriented industrialisation and increasing foreign capital input. At this time, the chief activity of labour unions, which were compelled by law to engage in economic matters only, has concentrated on wage increases. In real terms, wages, though very sluggish, rose throughout the decades. Even though the industrial dispute figures in the three years, 1968-71, before the declaration of the Law concerning Special Measures for Safeguarding National Security(the LSMSNS) in 1971 did not show any sign of increase, let alone sudden upsurge, some large scale industrial disputes were threatening employers. Some large scale strikes made a great impact, for example, the labour disputes at the foreign invested electronics firms, Signetics Co. and Oak Co. in 1968; a large scale industry-wide strike by textile workers at the sixteen cotton textile firms; a prolonged strike by the metal workers at the government-run Chosen Shipbuilding Co. in 1969; the chemical workers' hunger strike at the Korea Pfizer Co. of 1970, a subsidiary of American Pfizer; and the auto workers' strike at Saehan Motor Co. in 1971, a joint investment with General Motors. However, garment shop worker Tae-II, Jeon's dramatic suicide at the Peace Market in Seoul, on 13 November, 1970, by burning himself, was the most significant event that symbolised workers' protest against low wages and unbearable working conditions. Whereas the Jeon's incident was a great event in terms of social impact, the cotton textile workers' strike and the strike at the Chosun Shipbuilding Co. were a clear sign that workers' solidarity and union

strength were growing to a considerable degree. To the regime's political elites, who had relied heavily on a narrowly conceived production-oriented strategy, all of these events were interpreted as having obstructed an export-oriented economy.

C. Conflicts with Other Social Groups.

Social inequalities resulting from the widening gap between rich and poor during the period of rapid economic growth often lead to widespread political alienation and antipathy towards those in power, fostering what Shils calls "the oppositional mentality."³² Indeed, rapid economic growth in Korea disrupted traditional social structures, increased income inequalities, and had a destabilising effect upon the political system. The widening economic disparities between rich and poor, together with urban-rural gaps and regional developmental imbalance, stimulated nascent social and political conflicts. One of the disturbing manifestations of these conflicts was a riot in August, 1971, staged by approximately 30,000 poor residents in public housing units in one of Seoul's suburbs. To protest their poverty and unemployment, the rioters set fire to a police station, destroyed four cars, and fought 1,000 policemen. After several dozen rioters and policemen were injured, the government agreed to redress their grievances.³³ Stunned by such stark incidents accompanying the upsurges of labour and urban poor, students and other segments of the middle class became active.

The most explosive social problem faced by the Park government in the early 1970s was concerned with persistent student unrest. As the government strengthened a compulsory military training programme for all male college students in March, 1971, a massive protest was launched to boycott the programme or to request its substantial relaxation. The student protest was all the more intensified in the fall, and was accompanied by the beginning of a social movement against government corruption. In October, as he was unable to halt the student movement, President Park issued a

³² Edward A. Shils(1962), Political Development in the New States, The Hague: Mouton Company. pp. 34-35.

³³ For the full details, see. In-Joung, Whang, 1985, Policy Issues in Managing Urban Services for the Poor-- The Case of Squatter Improvement in Seoul, Korea--. KDI Working Paper *8512.

special order authorizing the military and police forces to ferret out student demonstrators from college campuses.

Compared with college students and industrial workers, some segments of the middle class were more apt to articulate their disillusionment with the economic and social reality, presumably because they had a clearer perception of their relative deprivation. This trend was discernible in a series of events that took place in the Summer in 1971. College professors adopted resolutions calling for salary increases and educational independence from the Ministry of Education. Junior doctors and nurses walked out of public hospitals to demand better financial compensation. A majority of judges tendered their resignations *en mass* in protest at the government's interference with their judicial decision-making procedures. Moreover, the rapid development of an atomized urban mass society seemed to breed a new sense of social isolation and political cynicism among educated citizens. Among these groups, a number of intellectuals criticized Park's developmental path. Written under such differing titles as "Economic Policy and Social Dislocation," "Korean Industrialization Facing a Turning Point," "We Cannot Live by Economic Growth Alone," and "The Off Track Economic Developmental Models.", scholars have a common view of the nature and causes of the problems embedded in Korea's developmental path.

On the other hand, according to the then-current Assistant Deputy-Director of KCIA, Il-Jae Cho, the KCIA also recognized that Korea's state of tension between social strata had become serious aspect since the late 1960s. During the policy conference for the government policy direction of 1971, which is usually held before the President's annual round of visits to the Ministries, the KCIA suggested to the government Ministries to give priority to mitigate these tensions.³⁴

The government was planning to initiate major innovative approaches toward the incipient symptom of a distribution crisis, which could not be solved by a routine administrative response. Thus, the government concluded the foundation of the economic developmental strategy should be fundamentally reassessed.

³⁴ Interview with Il-Jae Cho, former Assistant Deputy-Director who is a responsible person all-round domestic security issues.

4.2.4. International Environments.

During the 1960s, North Korea was anxious to capitalize upon the political dissent in South Korea to create Vietnamese-style revolutionary conditions in the South. Its effects throughout the 1960s and in the early 1970s, however, did not strike a response chord in South Korea. On the contrary, such belligerent actions as the commands attack on the Blue House in January, 1968 and the seizure of the US intelligence ship Pueblo off Wonsan a few days later angered and frightened the South Korean public.

Entering into the 1970s, Korea was undergoing a series of uncertain international passages: a growing Sino-American detente mood which might jeopardize the US security commitment to Korea, and the sharp reduction of American aid and withdrawal of American troops from Korea, which might weaken the stability of Park regime. This changed mood brought the two Korean regimes closer together psychologically and led to the initiation of South-North dialogue on resolving some of the outstanding issues of inter-Korean relations. A dramatic announcement was made on 4th of July, 1972, in Seoul and Pyongyang simultaneously, about the agreement reached between the Korean authorities in the Joint Communiqué on the South-North Dialogue. In the end, the necessity for carrying out the South-North dialogue on Korean reunification was used by the ruling elites as a convenient excuse for strengthening the authority structure and control mechanisms of the political systems in the two Koreas. The South Korean response to detente under President Park was the more daring but its effect upon internal politics was damaging to the cause of democracy. As the decade of the 1970s began, President Park's already-firm hold on power at home was strengthened considerably.

Coinciding with the uncertainties mentioned above, perhaps the most direct and serious shock to the Park regime was Nixon's New Economic Policy in 1971, placing 10 percent surcharge tax on Korea's textile goods and imposing a quota of 7.5 percent annual growth on non-cotton textile sales. It was expected that the impact would not only cause the collapse of Korea's economy which had mainly relied on exports of textile goods but also unavoidably add to social unrest, all of which would threaten the Park regime.

4.3. Results: The Adjustment of State Structure and Development Strategy.

As we have examined in the previous section, the major political and socio-economic problems with which the Park regime were met: (1). The crisis in political legitimacy following the constitutional amendment for Park's unlimited presidency in 1969 and alleged election fraud in the 1971 presidential election; (2). The crisis in distribution between urban and rural regions and industrial sectors; (3). The external threats from North Korea following the 'Vietnamization' of the US policy and the US troop withdrawal from Korea; and (4). The economic crisis itself which was produced due to an extreme unbalanced development strategy. All these environmental pressures limited the alternative choices of the Park regime to reduce the serious gap between state and society in the early 1970s. Park's decision was the restructuring of the state structure by his second coup, that is, the Yushin coup in 1972. Under this high concentration of political power within the state bureaucracy, the Park regime changed the growth strategy based on light industry to deepen its industrial structure through upgrading its products toward capital- and technology-intensive goods.

4.3.1. The Second Coup and the Yushin System of the Park Regime: The Fourth Republic.

Approximately a year later, as this Special Act was being clandestinely elaborated by the 'strategic political groups' surrounding Park called the 'planning caucus,' (these groups interpreting Park's continuous ambition to run the state under a new constitution), President Park proclaimed martial law throughout Korea to impose an authoritarian Yushin constitution. The core contents of the 17th of October Declaration, proclaimed under a state of martial law imposing strict censorship on mass media channels, closing down universities and colleges, and banning political gatherings and strikes, laid down that the government would: (1). Dissolve the National Assembly, prohibit party and political activities, and suspend part of the existing constitution; (2). Establish the Emergency State Council, which would fulfil the purposes of the suspended provisions of the constitution; (3). Announce

a new constitution which would be established by the Emergency State Council, within ten days after the 17th of October Declaration, which would be established by the Emergency State Council; (4). Hold a plebiscite within a month after the establishment of the new constitution in order to ask for a vote of confidence from the public on the new constitution.

Those who criticized the new constitution, the government campaign for revising constitution and/or the President were put on trial before a court-martial on charges of spreading 'groundless rumours.' The prohibition of opposition was justified on grounds that it was a political luxury Korea could not afford. If debate were allowed, the resulting turmoil would dissipate the nation's political, economic, social and moral strength. The press and broadcasting media were also subject to total pre-publication censorship with editors taking printed copies of each page to a military censor's office for approval. The martial law was lifted less than two days before the scheduled election of 2,359 delegates to the National Conference for Unification, which in turn was to choose a President to serve for the next six years. Despite the lifting of martial law, political party activities continued to be banned until the proclamation of the new constitution and the inauguration of a new President. On 23rd of December, Park was officially re-elected to rule the country for six years, winning near unanimous support with all but 2 of the 2,359 delegates to the electoral college voting for him. The two votes were declared invalid. In the process, the Fourth Republic was established.

Under the Yushin regime, the state structure became extremely authoritarian. According to the Yushin constitution and a series of measures processed by the Emergency State Council, the President would be empowered to declare a state of 'martial law' and 'national emergency,' when deemed necessary by the President (Article 53 and 54). Under these circumstances, he could also 'temporarily suspend the freedom and rights of the people as defined in the present constitution.' (Article 53). Moreover, the power of the President in pronouncing the emergency measures would not be subject to 'judicial investigations.' (Article 53). In normal times, the President, who would be elected by the National Conference for Unification for a six-year term with no limit on terms in office, could dissolve the National Assembly (Article 59). He could appoint the Prime Minister and members of

the State Council(Article 63 and 65). Further, the President could also nominate one third of the members of the National Assembly, the Chief Justice, and other Supreme Court Judges(Article 103).

With all these extraordinary powers invested in the hands of the President, he would enjoy further enormous power in the whole range of state affairs, including economic, socio-political, and national defence affairs. Park used state bureaucracy as a major tool to rule. The technocrats' role dramatically increased and replaced the politicians' role by reducing political power, on the one hand, and by substituting politicians with technocrats in the political arena, such as the National Assembly, on the other hand. In reality, Park tried to establish his unchallengable authoritarian leadership by utilizing state bureaucracy and bureaucrats as a major political mechanism. Park and the technocrats were tightly linked into the Yushin system. Democracy was blamed as 'inefficient way' for politics. Technocrats, on the other hand, attempted to get more benefits through consolidating the Park's Yushin system.

Following the consolidation of power within the ruling coalition and state institutions, the Yushin system penetrated the Korean society.

First, since they emphasized that 'national security and self-reliance' was the most important state goal, the Korean society was significantly organised by numerous security related institutions: (1). The autonomous students organisations were curbed and they were officially organised by the state run Korean Student Corps for National Defense, the branches of which were established at all the different levels of schools including universities and senior high schools in 1972. All students were also legally required to take the 'military training' course as a normal compulsory academic course which had been taught by the military officers since 1969. (2). All the male citizens aged between 18 and 50 years old were organised into the National Civil Defense Corps and they were regularly trained. (3). All the male citizens of the reserved army forces had been organised in 1968, but now the armed forces strengthened its organisation as well as its training in mid-1970s. Most of public and private institutions, such as the state bureaucracies, businesses, industries, firms, schools, have their Emergency Planning Offices to prepare for a national emergency situation and performed the military drills all over the nation. (4). From fear of the espionage from the North, every ten or so households were organised into primary units, that is,

the Tong and Ban, nationwide and met every month to prevent them from being penetrated to disseminate the state policies to the entire households. All the Koreans were required to keep their residential identification card, issued since 1968, as a means of controlling citizen activities.

Second, as O'Donnell argues the development-oriented authoritarian regimes commonly arise to control mass participation and to prevent the political expression of social cleavage that can easily emerge in democratic systems,³⁵ the Park regime sought to answer the popular demands through extra-constitutional means and repressive measures without any significant structural change or elaborate and guiding ideology. In the confinement of political participation to the elite and counter-elite (opposition groups), the Park regime attempted to justify forcible repression of populist movements with symbolic references. He stressed generic values such as national security, economic development, anti-communism, administrative democracy, social justice and order, Koreanised democracy, loyalty and filial piety derived from Confucian in order to neutralize opponents and co-opt a variety of support. The desired consequence for the regime was the elimination of all forms of spontaneous political activity and dissent and the imposition of a more stable and predictable set of social interaction patterns, particularly for the continued economic development of the state. With the limited, controlled, and co-opted elite, the appeals based on a consensual, nonconflictive society reduced politics to administration of the public and particular interests. The Park regime justified the harsh measures to prevent 'social disorder and chaos' which might jeopardize the development plans.

In consequence, under the Yushin system there appeared some significant changes. First of all, in the political sphere, even formally sustained liberal democracy (or political pluralism) began to be abandoned since this reformation. The Yushin constitution provided for an indirect election of the President, and the appointment by the President of one-third of the 219-member National Assembly, and the reduction of the powers of the legislature and the judiciary. Additionally, in terms of the institutional structure, Park was now assured of an indefinite term as President with almost an unchallengable power. In the economic area, the control and intervention of the government became intensified. And socially, the

³⁵ Guillermo O'Donnell (1978), "Reflections on the Patterns of Change in the Bureaucratic-Authoritarian State," *Latin American Research Review*, Vol. 13, pp3-38.

government's manipulation of civil society took a form of direct rule without major intervention of politicians, bureaucrats or interest groups. In other words, major policies were decided and implemented by a group of presidential secretariats and supported by members of Yujonghoe (political Fraternity for Revitalizing Reforms) who were selected by the President and were responsible only to the President himself.

4.3.2. The Adjustment of Export-Led Development Strategy: The Import-Substituting HC Industrialization and Economic Liberalization.

As we have examined in the previous section, Korea's industrial structure became increasingly distorted even though Park's export-first strategy contributed to unprecedented industrial growth. Further, the nation's production activities became extremely limited to simple manufacturing exports which would, in turn, imply that Korea had to invariably rely on foreign input in order to export.

Under these circumstances, progressive social voices resumed the fundamental questioning of the stark dependence of the nation's economy on foreign capital. The political opposition took advantage of such a situation, and the issue of industrial distortion by way of foreign dependence became for them the major political ammunition to attack Park's entire political-economy trajectory. Issuing a series of policy recommendations, business communities argued that the then-current mode of business operation set up by the government for export promotion was essentially 'authoritarian' and that it should be subject to immediate change. In a more vociferous way, sections of labourers, who were previously docile in following the government's direction, clamoured for 'better' labour provisions, which, according to them and their sympathizers, had been limited by the government's single-minded effort focusing on export target maximization and not necessarily on social equity. Academic circles long argued for less government intervention for growth only and more intervention for imbalances in the economy and the society. This change was also accepted as an overture to the shift from state-dominant industrialization to one that would be based on 'civil initiatives.'

The effect of all these constraining developments was multiple for the Park administration. However, given its self-declared political strategy of defining how the incumbents were to be judged by the society, one direct significance of such structural antinomies associated with Park's export-first strategy was clear. These difficulties signified that the Park administration would face a heightened impetus to find immediately an alternative to its previous industrial strategy. Guided by such a general consensus tacitly forming in the government, Park's initial response was to rely on the nation's formal planning institution, the EPB. Indeed, when the recession of this period was felt strongly by the government and when the movements against Park's policy reached their peaks, a vibrant debate was hastily waged among the officials and semi-officials working for the EPB. The core of this debate, quite expectedly, was what the nature of the state of the economy was and how the problems associated with it could be resolved. One voice dominated the outcome of the debate, arguing that the then-current state of the economy should be defined as 'structural recession' and that a fundamental change in the developmental strategy was necessary to cope with the industrial recession.

Under these circumstances, the EPB would hasten its efforts to upgrade the industrial structure, this time, not as a 'symbol to appease nationalist feeling,' as in the early years of industrialization but with more substantial concern toward reversing ominous trends in the economy.³⁶ However, EPB's means of settling the matter were very restricted. At first, reducing foreign dependence by way of curtailing foreign capital would have appeared as a tempting solution to eschew the political charge of Korea's stark dependence. But the reduced foreign dependence by way of the halt of foreign capital inducement could be come by only at the expense of a short-term political cost. The flight of much-needed foreign capital would have resulted in an immediate political cost of weakened business opportunities because Korea's exporters already heavily relied on foreign capital of various sorts for re-exports.

Another more realistic solution would have been to spur exports so that surplus earnings from exports could resolve the dilemma of Korea's stark

³⁶ David C. Cole and Princeton N. Lyman(1971), Korean Development: The Interplay of Politics and Economics, Cambridge, M.A.: Harvard University Press. p. 213.

dependence on foreign inputs. Therefore, as the preparation for launching the Third Five-Year Plan, 1972-1976, was getting under way beginning in 1970, the Park administration, in effect, emphasized that one of its goals was to 'increase exports dramatically' so that it could get rid of the chronic balance of payments problems on the way to what Park's called a 'complete national independence.' Plausible as it might have sounded, the option of dramatically increasing exports, also, seemed not to be a promising option. The prospects for Korea's exports were increasingly clouded by events occurring outside Korea during this period. As indicated by the US proposal delivered to the Korean government in 1971, Korea was to limit its textile export sales in the US to a level of 7.5 percent annual growth. Thus, the hope of increasing exports for the sake of alleviating the burdens of Korea's distorted industrial structure through a 'dramatic increase in exports' was in serious trouble, at least in the eyes of the Park administration.³⁷

Following a period of muddling through, the EPB, among other things, announced two points concerning a new mode of industrialization strategy.

First, the EPB emphasized the necessity to build import-substituting heavy and chemical industries(hereafter HC industries). The EPB hoped that this policy would remedy industrial distortion and reduce the level of foreign dependence. The rationale behind this gradual policy was that a massive approach towards HC industrialization in Korea was premature in that there existed only a handful of recent HC industries and that the promotion of HC industries required enormous capital. Secondly, the EPB suggested that the government would opt for a 'civilian-initiated' mode of industrialization, giving more freedom of economic action to the society. Given the problematic nature of the state-led mode of industrialization, the government emphasized that the economy would now be operated within the new tradition of 'civilian-initiated' economic operation, giving the initiatives to civilian sectors. Openly publicised, the government's pronouncements on this major change in Korea's mode of economic operation were welcomed by many, particularly since this change was accompanied by a series of statements that the government, among other things, would rely more on market mechanisms, civilize banks, gradually foster HC industries, pursue 'growth and stabilisation' together, and spend more on social welfare.

³⁷ Dong-A Ilbo, 14 July, 1971.

In these policies, the government was responding to societal pressures. The government's announcements on the 'civilian-initiated mode' of economic operation as well as on emphasizing workers' welfare bore a remarkable resemblance to the demands of the business community and the labourers and their sympathizers. The major state decisions for Korea's future industrial course arose out of the heated debate among the central planners working for the nation's most powerful economic institution, the EPB, which could be interpreted as the activation of the greater autonomy of bureaucrats as against the chief executive in the process of decision-making. At another level, had such announcements by the government been sustained in the years that followed, HC industrialization could have taken place in a piecemeal fashion, on the basis of private corporations' own judgements on the direction and the size of investment. As can be recalled, the government announced that it would gradually foster HC industries as both import substitutors and export promoters, in areas where Korea had a comparative advantage. Further, it also said that such a change in the course of the nation's industrial direction would be implemented within the new framework of the civilian-initiated mode, which handed over the state initiative in the economy to the civilian sector. In short, in this atmosphere, Korea was on the way to an essentially new industrial course, disassociating itself from the previous industrial course of all-encompassing state-directed, export-led light industrialization. The government, among other things, would from then on emphasize growth, stabilization, and social welfare together, rather than single-mindedly focusing on growth alone, as it had in the past.

4.4. The Emergence of Pension Scheme.

In the previous sections, we examined the political and socio-economic problems that the Park regime faced in the early 1970s, and the results of these crisis. To handle these crisis, the Park regime actually pursued a series of specific policies. As a political measure, Park chose the Yushin coup which strengthened state power to become more authoritarian rather than a democratic solution. In the economic area, the Park regime chose (1). The import-substituting HC industries which was expected to remedy

industrial distortion and reduce the level of foreign dependence, and (2). Economic liberalization which gave more freedom of economic action to the society.

In this section, we will focus on another aspect of Park's means of settling these problems. In other words, we will examine why the Park regime had to select the social security pension scheme as a policy measure together with these economic and political means. Throughout this section, I argue that pension policy was brought forward deliberately by the Park regime with a dual-role: socio-political appeasement and economic acceleration. As a social objective, a pension programme will provide a social equity through income protection for most economically vulnerable groups, such as the retired, aged, widows and orphans, and the disabled. As a political objective, an efficient, well-managed system of pension provision may be an important element in keeping the populace passive. As George and Wilding mentions social services contribute to political stability through the amelioration or solution of problems which would provoke serious discontent.³⁸ In addition, economically, it serves as an important economic objective by providing a source of funds to finance economic development. In this framework, we will examine the emergence of pension policy as a political agenda.

4.4.1. Pension Policy: As a Socio-Political Appeasement.

The Ministry of Health and Social Affairs(MOHSA) and its Office of Labour Affairs, which are the major governmental agencies responsible for welfare policy and programmes, had been studying and planning various social insurance programmes since the early 1960s.

The Social Security Committee(SSC) was established to examine and deliberate on matters related to a social security system at the request of the MOHSA on 20 March, 1962. The number of members of the committee are appointed by the MOHSA up to a total of twenty persons who have experience and knowledge in the area of social security. For actual research, research fellows were appointed by the MOHSA. In the beginning these research fellows were assigned to four different sections: comprehensive, labour, public assistance, and medical insurance, and they

³⁸ George and Wilding(1984), *Ibid.*, p. 189.

started research work on social security programmes in their assigned section. However, it did not perform any substantial function in its earlier years. In 1967, Minister Hee-Sup, Chung reinforced its research function and assigned to it the responsibility for the preparation of a long-term social development plan. This was a rather unusual measure, since the SSC, as an advisory committee, had no legal authority to make decisions, and the issue of social development was beyond its formal function. This measure, however, launched the country's first multi-year social planning process. At its inception, forty-nine Korean professors and four foreign advisers were invited to form an advisory team, which was divided into eight sub-committees of dealing in the social ethics, community development, population and labour force, health and medicare, social welfare, public assistance, social insurance, and social programmes and projects respectively.

The basic guidelines for the formulation of a long-term social development plan were prepared by the team. In July, 1968, the team completed the report entitled "Social Development: the Basic Design and Direction". In initiating and carrying out the social development planning attempt, the participants relied upon the recommendations for balanced economic and social development by the United Nations.³⁹ The team, however, vigorously attempted to define normative values. The ensuing report prepared by the SSC research team and approved by the MOHSA presented five short-term goals and three long-term objectives of Korea's social development planning.⁴⁰

The short-term goals are:

- 1). To find a social moral system based on new values;
- 2). To remove social impediments to the country's rapid economic growth;
- 3). To promote labour productivity by developing human resources and creativity;
- 4). To lay the ground for a better and civilised life by improving living conditions;

³⁹ It was acknowledged in the preface of the 1968 report that the report has been prepared on the basis of the recommendations from the United Nations. In the preface, the UN document entitled "International Survey of Programs of Social Development(1959)" was specially referred to.

⁴⁰ The MOHSA(1968), Social Development: The Basic Design and Directions, Seoul: The SSC. pp. 67-69. In Korean.

- 5). To realise social justice and rationalisation in the distribution of national wealth.

The long-term objectives defined by the report are:

- 1). To promote the happiness of the individual;
- 2). To improve the quality of family life; and
- 3). To move the nation toward a welfare state.

Since the team of professors and foreign advisers was dispersed in 1968, the task of social development planning has been carried out by the Research Office of the SSC/MOHSA. By September 1970, the Office had revised the 1968 report into a more operational plan, entitled "Social Development: Long-Term Plan(1972-1986)". In this process, the recommendations of the UN, especially the UN Research Institute for Social Development(UNRISD), were given special consideration. The plan holds that in setting the objective of social development planning developing countries should give special consideration to:1). The social conditions in economic growth(social requirements of economic growth, the contribution of social factors to economic growth and social obstacles to economic growth); 2). The social costs of economic growth(pollution, the destruction of national resources, the distortion of traditional ways of life, and the aggravation of inequality); and 3). The raising of the level of living of the poor and the promoting of popular participation in national development⁴¹ Formally, the 1970 social development plan declared that the "ultimate aim" of national development planning should be the improvement of the people's well-being. In the plan, however, this ultimate aim was seen to be achieved through economic growth and social development. On this assumption, the plan defined two "objectives" and seven "targets" of Korea's social development planning.⁴²

The two objectives are:

- 1). The promotion of rapid economic growth; and
- 2). The improvement of the level of people's living.

The seven targets are:

⁴¹ The MOHSA(1970), Social Development: Long-Term Plan, 1972-1986, Seoul: The SSC, pp. 37-71.

In Korean.

⁴² For the detail, see. Ibid. pp.37-82.

- 1). The structural and qualitative improvement of education and the development of human resources;
- 2). The intensive implementation of family planning programmes;
- 3). The improvement of the housing and living environment;
- 4). The introduction and extension of a social security system;
- 5). The extension of social welfare programmes;
- 6). The acceleration of community development; and
- 7). The removal of structural and institutional impediments to economic growth.

In practice, however, the actual aim of the long-term plan was to draw the attention of top policy-makers of the government to the issue of social development, and thereby increase the political feasibility for adding social contents to the Third Plan, starting in 1972. The editing of the report and the plan, for this reason, reflects the strategy that the MOHSA was developing during their preparation for adoption by the government. Firstly, it is emphasised that they adhered to the recommendations of the United Nations. Secondly, emphasis was given in the introductory explanation to the significance of social development planning, such as the need for social development, the concepts and techniques of social development planning, and the relations of social development to economic development, or national defence. Thirdly, emphasis was also put upon the introduction of as much quantitative data as possible in the plan. The 1970 social plan, therefore, was distributed to the high ranking policy-makers of the executive branch, the members of the National Assembly, the leaders of the governing party(DRP), and some outsiders.

Among the social insurance programmes that the Social Security Committee was studying were the Old Age Insurance, which was later named Welfare Pension Insurance Programme, for the employed workers and the National Pension Insurance programme for the self-employed and other income-earning people. The Social Security Committee proposed to adopt the Welfare Pension Insurance Programme for the employed workers effective in 1970.⁴³ In a preliminary rough draft prepared by the Committee in September 1968 for the purpose of discussion, there was no specific reason and method as to why it should and how it could be implemented,

⁴³The MOHSA(1968), *Ibid.*, pp. 208-209.

but it was described simply as one of the programmes which could improve the living conditions of the people. It was planned in that draft that the Welfare Pension Insurance programme would cover 19 percent of the employed workers by 1975. By this time the National Pension Insurance Programme would start operating by covering only 20 percent of the eligible persons in 1975, and by 1980, it would cover 75 percent of the eligible persons.⁴⁴ This kind of approach which was called "gradual and partial approach" to the adoption of a social insurance system by the Social Security Committee would then be completed by 1980 with the implementation of other social programmes such as Family Allowance, Unemployment Compensation, and the Comprehensive Compulsory Medical Insurance. The following subsequent discussions of the draft for several months led to the target years being changed. The Welfare Pension Insurance Programme was planned to start in 1971 and the National Pension Insurance programme was planned to start in 1977 instead of 1975 as mentioned in the earlier draft, and it was planned to cover 56.89 percent of the eligible persons by 1986, which was different from 75 percent coverage by 1980 in the earlier draft.⁴⁵

The Social Security Committee tried to focus on the Welfare Pension Insurance Programme to be included in the Third Plan, but it failed to produce it.⁴⁶ All these discussions and plans were never finalised as the policy of the MOHSA, because policy makers were simply not interested in the social security aspect; they were preoccupied with the economic development aspect of national development.

In the early 1970s, however, the Park regime could not ignore any more the concern with distributive issues. In order to mobilize national effort for economic development projects beginning in the early 1960s, the Park regime repeated such slogans as "Bunyung ui Chilship Nyundae," which mean that we can reach the long-awaited socio-economic well-being in the 1970s. Through such government publicity people have increased their

⁴⁴ *Ibid.*, pp. 209-210.

⁴⁵ The MOHSA(1970), *Ibid.*, pp. 203-208.

⁴⁶ The MOHSA(1973), *Social Security and Social Development*, No. 2. Seoul: The SSC. p. 19.

In Korean.

expectations of sharing the benefits of economic growth.⁴⁷ The disparity between urban and rural areas, and between social strata, together with the people's expectation and the improvement of general economic conditions, brought the growth of demand for equitable redistribution of the benefits of rapid economic growth. The Park regime also was concerned with the redistributive issue more consciously for political purposes since the early 1970s. Within a decade of its seizure of power President Park called for a constitutional referendum under his martial law powers in October, 1972. The new constitution, the so-called Yushin Constitution, made it possible for Park to rule the country for life. It was anticipated that this shift would confront severe political opposition and it actually did throughout the early 1970s.

With all of the aforementioned economic, social and political problems, the widening expectation-performance gap activated the popular sectors. When the regime was unable to respond to their demands, social unrest in the form of anti-government demonstrations and labour disputes increased. Growing out of such a tense atmosphere were a series of state moves rushed in by the government to muddle through such comprehensive problems plaguing Korea's national development strategy. This caused the Park regime to search for another palliative to promise the public. New slogans appeared such as 'equitable share of economic benefits' and 'introduction of welfare policies,' in addition to such old ones as 'national security against communist North Korea' and 'continuous economic progress.'⁴⁸ These trends, on the other hand, were affected by emphasizing the diffusion of policy innovations. Since the later 1960s, the equitable redistribution of income and social development has become one of the most important issues in the international development field. Further, a Regional Conference of the International Council on Social Welfare(ICSW) was planned to hold its five day discussion in Seoul on standards of social welfare between 3 and 7 September, 1973. As we observed, on the other hand, interest originated with Korean intellectuals, including university professors, journalists, and government researchers, usually who had

⁴⁷ According to a survey report by the MOHSA, 56% of urban inhabitants and 80% of rural people believed that their living conditions would improve in the near future. A survey by the MOHSA, reported in the Dong-A Ilbo, 21 July, 1973.

⁴⁸ Yong-Duck Jung(1982), "Income Redistribution in Korea: Causes for the Growing Concern," Journal of East and West Studies, Vol. XI No. 1. p. 47.

education, training, or travel abroad. For example, toward the final year of the Second Five-Year Plan, the Team of Professors for Economic Development Evaluation⁴⁹ started pointing out that rapid economic growth had caused various social problems, and arguing that social problems should be properly considered in economic development planning. In the Evaluation Report of the Second Year(1968) programme, the team held:

“Up to date, all those social problems have been particularly dealt with outside the scope of economic development planning. However, it is felt that the problem of social development should be weighed as much as that of economic development and has to be included in the Third Five-Year Plan as a major field, as an economic development plan can not be successfully launched unless various sociological impediments are moved.”⁵⁰

However, Park and his advisors hesitated to adapt the MOHSA's proposal. To the Park regime, the goal of a social security pension programme, if it meant slower economic growth, could not be acceptable. Essential deflationary measures, which were expected to slow growth and lift unemployment, could well add to domestic unrest which had already increased. It is in this climate, as Friedlander claims,⁵¹ that the Park regime had launched the Saemaul(New Village) Movement in 1971 to reduce social and distributional crisis without adjusting its main development strategy. The Saemaul Movement pursues economic and social development by means of voluntary participation and the cooperative effect of the people. This movement, aimed at building up national strength, is a pan-national movement seeking the improvement of the people's economic and social standing by harmoniously developing living conditions on the fundamental basis of diligence, self-help, and cooperation. It seeks to foster

⁴⁹ This team was organized on the instruction of president Park for an overall evaluation of the implementation of the five-year economic development plans in 1965, and attached to the Office of Planning and Coordination for the Prime Minister.

⁵⁰ The Office of Planning and Coordination for the Prime Minister(1969), Evaluation Report of the Second Year Programme 1968: The Second Five-Year Economic Development Plan. Seoul: The Republic of Korea. p. 75. In Korean.

⁵¹ He claims that in industrial countries, the emphasis is on effective social insurance programmes, whereas in the developing countries there is greater interest in community development programmes. See, Walter A. Friedlander(1975), International Social Welfare, Englewood Cliffs, N.J.: Prentice-Hall. p. 155.

a sound human consciousness, the improvement of social environment and the increase of national income.⁵² In his book, President Park said that in conducting the Saemaul Undong, "it is impossible for the institutional apparatus of social welfare to fulfil its function without the revolutionary spirit of diligence, frugality, self-regeneration, mutual assistance, etc."⁵³ In short, the Saemaul Undong based on President Park's ideology of welfare, is a national movement for creating a better life for the people, making the communities a good place to live, and eventually building a wealthy and strong nation. According to its critics, however, these were only the ostensible purposes of the Saemaul. Rather, the core purpose was to tighten control over the deprived groups across the nation, via centralized cell organizations of the Saemaul. Whatever the reasons, the main thrust seemed to be that the growing tension from frustrated segments of the society would, at least in theory, be accommodated via the Saemaul, whose beneficial aspects were to be radically propagated through various mass media channels, starting in late 1971.

Yet, even though the Saemaul Undong provided Park with politically favourable conditions at the moment, such a tradition-based measure was far from being the measure to cure fundamentally Park's development strategy which was in a great shambles internally and externally. Thus, the need for a comprehensive social security system was increasing as the Korean society became more industrialized. Under these circumstances, Korea may have no alternative to developing "western-style" social security programmes, although the scope of such programmes can be reduced to meet the present economic and social conditions of Korea.⁵⁴ Developing social security programmes for the poor and the deprived usually implies a great share of social security expenditures by the government. When the available financial resources are limited, it is of critical importance to set appropriate priorities among the alternatives uses of resources.

⁵² Suk-Joon Kim(1975), "Hypothetical Causal Model of an Input-Output System in Rural Development," The Korean Public Administration Review, pp. 251-279.

⁵³ Chung-Hee Park(1971), The Nation's Latent Power, Seoul: Kwang-Myong Publishing Co., p. 254.
In Korean.

⁵⁴ Sang-Mok Suh(1980), Dilemmas in Developing Social Security Programs for Korea, Seoul: KDI.
pp. 27-34.

In Korea, social insurance is likely to receive a higher priority than public assistance because the former is more visible and its beneficiaries are more vocal.⁵⁵ Most people tend to agree that it was wise to develop Industrial Accident Insurance initially, and then Medical Insurance at the next stage. But there are divergent views as to what to do next in the field of social insurance. Labour unions and business groups take the view that Unemployment Insurance needs to be introduced immediately, particularly in the view of the deteriorating employment situation in the economy. Researchers and professors specialising in social security, however, agree that it is premature. There are no established public channels for job placement and training. They propose, alternatively, that the implementation of the Medical Insurance Programme and the Social Security Pension Programme should have a higher priority than introduction of Unemployment Insurance. Furthermore, some people raise the issue of whether it is wise to introduce a new Social Insurance Programme when the existing ones, especially the Medical Insurance, was not enforced. But, it can be argued that making some kind of start is very important because it takes a long time to develop a mature social insurance programme covering the entire population. In the end, to muddle through all these socio-political problems, the social security pension scheme was promoted as a palliative measure.

On 23 January, 1973, when President Park made an annual visit to the MOHSA, the Minister proposed that the Ministry would put the NWP programme into effect. According to Mr. Jae-Sung, Min, former member of the SSC, the MOHSA, like any other Ministries, was busy formulating a new policy to provide for the President's annual visiting. At this time, his Master's thesis, 'The Establishment of the Pension Insurance System in Korea', was adopted as a MOHSA's new year policy.⁵⁶ Now that the President announced the establishment of social security programme, the MOHSA, as the government agency with the jurisdiction over social security, hastily assembled a working plan of a social security pension programme, which was called the National Welfare Pension. The term "National Welfare Pension" was used for the first time on this occasion. The term was borrowed

⁵⁵ Suh(1980), *Ibid.*.

⁵⁶ Jae-Sung Min(1973), "A Study on the Establishment of the Pension Insurance System in Korea," Unpublished M.A. Thesis, Seoul National University; and Interview with Jae-Sung Min.

from the names of two social insurance programmes in Japan, whose contents the National Welfare Pension was supposed to have combined in one programme.⁵⁷ They were Welfare Pension Insurance and National Pension Insurance programmes. The reason behind all this was that the MOHSA had been studying two separate social insurance programmes which were modelled after the two Japanese social insurance programmes and planning to introduce them separately. However, it was known from the press conference, that the President had in mind a rather comprehensive pension system, so that the MOHSA assembled the two separate programmes and named it National Welfare Pension by combining their names.

The content of the NWP briefed by the MOHSA was as follows:⁵⁸

- (1). Purpose: To secure the retirement life of the working people.
- (2). Subscribers: Employed workers to begin with, but self-employed persons to be included gradually, at the ages between 20 and 60.
- (3). Financing:
 - 1). Subscription fee from employed persons; 2% to 3% of the monthly earnings.
 - 2). Subscription fee from self-employed persons; fixed monthly amount.
 - 3). Donation of subscription fee from employers of the employed workers; 2% to 3% of the monthly salary.
 - 4). Administrative expenditures; subscribed by the government.
- (4). Types of annuity: 1). Old Age Annuity; 2). Disability Annuity; and 3). Survivor Annuity.
- (5). Effects of the Programme.
 - 1). The NWP programme would have an income redistribution effect.
 - 2). It would mobilise domestic savings.
 - 3). It would permit the maturation of the social security system in Korea.
- (6). A long-range prospect was suggested as seen in the following Table.

⁵⁷ Interview with Chun-Song Choi, Chief Research Fellow, The SSC in the MOHSA.

⁵⁸ The Bureau of Welfare Pension(1974), Footstep of the National Welfare Pension, Unpublished Internal Draft, Seoul: The MOHSA. pp. 11-12. In Korean.

Table: Long-Range Prospect.

Year	Organization of Automatic Application	Number of Organization of Automatic Application	Subscriber	Estimates of Reserve Fund (Billion Won)
1974	Employing 1,000 or more	217	330,000	7
1976	Employing 500 or more	861	710,000	27.6
1978	Employing 30 or more	24,393	2,350,000	60.3
1980	Self-Employed	---	4,350,000	119.3

President Park, upon receipt of the briefing, instructed that the MOHSA, the EPB, and the KDI should work together in order that the programme could be effective on 1 January, 1974.

4.3.2. Pension Policy: As a Source of Economic Acceleration.

Another aspect of the emergence of Korea's social security pension policy in which economists had become interested was the use of pension funds as a method of increasing savings and mobilizing them for development. If contributions are greater than benefits, a social security pension system can mobilize a considerable amount of savings that otherwise would not be acquired by developing countries. As a result, such a situation will occur over a long period of 15 to 20 years or more years. Many scholars, such as Reviglio,⁵⁹ Singer,⁶⁰ Fisher,⁶¹ Cockburn, etc., examined social security policy as source of savings. For example, a study of Reviglio's⁶² has shown

⁵⁹ Franco Reviglio(1967), "Social Security: A Means of Savings Mobilization for Economic Development," International Monetary Fund Staff Papers, July.

⁶⁰ H.W. Singer(1968), "Social Factors in Development: An Overview with Special Emphasis on Social Security," In Everett M. Kassalow(Ed.), *Ibid.*, pp. 21-38.

⁶¹ Paul Fisher(1968), "Social Security and Development Planning: Some Issues," In Kassalow(Ed.), *Ibid.*, pp. 239-261.

⁶² Reviglio, *Ibid.*, pp. 324-368.

that in eight of 23 countries analyzed social security gross savings(i.e., without deducting government subsidies) represent a significant addition(5% or more) to total domestic investment. Net social security savings(i.e., after deducting government subsidies) added 5 % or more to total net savings in 17 out of 31 developing countries. In 10 out of 35 developing countries analyzed, the contribution of net social security savings represented a higher proportion of gross national product than in the US. Total social security assets amounted to more than 10 percent of GNP in 5 out of 27 developing countries analyzed, and between 5 and 10 percent in 8 additional countries. In 4 out of 15 developing countries, social security agencies held over one-third of the internal public debt.

To achieve this goal, short-term risk protection programmes do not, as a rule, lead to a significant increase of savings. In addition, the savings potential of long-term social insurance programmes depends on the methods used to finance them. In offering policy advice to developing countries regarding methods of increasing savings, the social security approach should obviously rank among the alternatives to be examined.⁶³ Where social security programmes provided for a funded social security insurance system, a relatively rapid accumulation of pension reserve funds is brought about by three major factors.⁶⁴ First, as a rule, contributions will be collected for several years before any benefits are paid. A new system may specify a qualifying period of 10, 15, or 20 years of covered employment before a worker can draw pension benefits. Secondly, the typical age distribution in developing countries contains a large percentage of younger persons. Consequently, there are many young contributors and relatively few aged persons when a social insurance pension programme is first initiated. Moreover, the number of insured persons will increase, without a similar increase in the number of beneficiaries, as industrialization draws more persons into covered employment. Finally, the amount of social insurance receipts may increase as a result of inflation as wages and contributions(often a fixed percent of wages) rise. Benefits will not rise, however, unless they are tied to a cost-of-living index or a wage index by an escalator clause. Depending on the way the reserves are invested, inflation may, however, nullify the savings effects. For this reason, in some

⁶³ Singer, *Ibid.*, p. 38.

⁶⁴ Paul Fisher(1968), *Ibid.*, pp. 251-252.

developing countries social security programmes have been established and expanded despite a slow rate of industrial growth, and as a result, the growth of social security system is to some extent unrelated to the rate of economic development in the developing countries.⁶⁵

This idea had a big effect upon the Korean scholars as well as the policy-makers. Up to now, they had not fully recognised the value of a social insurance system in accumulating capital funds for economic development financing. Encouraged by this idea, the first significant research result was published in 1971. Under the title: "A Feasibility Study of Compulsory Retirement Scheme in Korea," it advocated that "the social security pension system does not need to work at cross purposes with the objectives of the conventional economic development plan and, when integrated with the Third Five-Year Economic Development Plan, can in effect help attaining these objectives."⁶⁶ Since this first new aspect of social insurance research seemed to influence on the following studies so very much, the contents serve usefully for this research.⁶⁷

(1). Basic Assumptions:

1). The coverage used in projection is limited to all the workers aged between 18 and 60 employed in the establishments with 50 or more employees in mining and manufacturing, in those with 30 or more employees in services, and self-employed in service.

2). The contribution rates for employees and employers are 5 percent each, of payrolls, adding to 10 percent in total.

3). The rate of return on funds accumulated through contribution is assumed to be 10 percent per year in real terms.

4). The operational costs of the proposed pension programme is assumed to be a flat rate of 10 percent of the size of the accumulated funds.

5). The initial year from which contributions is to be paid in is assumed to be the year 1972.

⁶⁵ *Ibid.*, p. 243.

⁶⁶ Seung-Yun Lee et.al.,(1971), A Feasibility Study of Compulsory Retirement Scheme in Korea, Seoul: Sogang University.

According to Mr. Jae-Sung Min, this research was conducted with the financial support of the USAID. Interview with Jae-Sung Min.

⁶⁷ See, *Ibid.*, pp. 76-92.

6). The lump-sum benefits payable upon retirement or to beneficiaries during the transitional period(1976-81) will consist of the total amount of contributions paid in by both the covered worker and his or her employer together with 10 percent interest return, and

7). The over-all average size of benefits payable after the end of the transitional period(that is from 1982 on) is assumed to be 40 percent of average earnings during the last five-year period of employment.

(2). Major Findings:

1). Despite the limited coverage assumed for the initial period, the pension funds to be accumulated through contributions during the Third Five-Year Plan period(1972-76) would amount to 256 billion Won(in 1965 base price) and to 1,835 billion Won by the end of 1986.

2). The estimated amount of fund accumulation for the five-year plan period would roughly occupy 6.9 percent of the projected GNP for 1976, the end-year of the plan period, and 7 percent of the projected GNP for 1981.

3). The total sum of pension funds accumulated would amount to more than 35 percent of the projected domestic savings for 1976 and 65 percent for 1981. The net savings from the programme(deducting running costs and pay-outs) would amount to 57 percent of the domestic savings.

4). The ratio of annual pension contributions to the projected GNP for the corresponding year is from 1.3 to 2.5 percent throughout the project period.

5). The ratio of annual pension contributions to the projected domestic savings for the corresponding year ranges from 6.77 to 5.56 percent throughout the projected period. The ratio of annual net savings from the programme to domestic savings for the same year ranges from 6.1 to 4.64 percent.

6). The ratio of annual pension contributions to annual total tax revenues ranges from 6.92 to 5.56 percent throughout the projected period.

7). When social security pension contributions are incorporated into the structure of taxes, the ratio of the sum of pension contributions and tax revenues to GNP would be around 18.3 to 18.7 percent annually throughout the projected period.

(3). Policy Recommendations:

1). An ad hoc coordinating committee representing various interest groups and public agencies concerned should be organised to examine intensively

a wide range of problems related to the following aspects of the proposed pension plan: legal provisions and their relationship with the existing laws; administration and organisation; management of pension funds; actuarial projections of contributions and benefits payoffs; and detailed programmes for accumulation of advanced funds prior to the implementation of the plan.

2). A series of carefully prepared opinion polls and public hearings be carried out to find out the public response and opportune timing of the introduction of the plan.

3). The government set aside either a large lump-sum fund or annual appropriations of funds for accumulation of advanced funding, through the government fiscal system, especially designed to ensure a maximum accumulation of net savings over a maximum extended period through the social security pension system. This method of advanced funding is essential for the proposed pension system to be successful both as a powerful saving device and an effective means of promoting social welfare.

4). A guiding principle to be applied to the introduction and implementation of the proposed social security retirement pension system be that of gradualism, in terms of the coverage, contributions rates, and kinds and size of benefits.

Like the MOHSA's proposal, this report also failed to be included in the Third Five-Year Plan, simply because the policy-makers were preoccupied with the economic development aspect of national development.

However, they whistled a different tune in relation to the new industrial development strategy. Compared to light industry, the development of the HC industries needed the mobilisation of far larger amounts of capital with more complex forms of processing. The only financial sources available to the new industrial strategy were of foreign capital inflow through the governmental approval and guarantees. As we examined before, this method has certain constraints. Therefore, during the Third Five-Year Plan period, the government projected to improve the balance of payments. The government planned to decrease foreign capital during the Third Plan period in order to improve the balance of payments. It was planned that foreign savings would decrease from 9.2 percent of GNP in 1970 and 3.4

percent in 1976.⁶⁸ Total investment requirements of 4,525 billion won for the Third Plan period was expected to be financed by 3,575 billion won of domestic savings and 949 billion won of foreign savings. Thus, it had to be necessary to increase sharply the private savings of households and corporations if long-range development potential were to be met, i.e., mobilisation of domestic savings.⁶⁹ To accelerate investment, the government intervened and funded the National Investment Fund which allowed the government access to public employee pension funds and a substantial government portion of private savings at regular banking institutions. But the funds were insufficient to finance all projects, and banks were urged to make special loans at very low nominal interest rates on a preferential basis.

In these circumstances, the government needed some other measures that could mobilise domestic savings. The KDI was interested in the pension scheme for this reason. This was because, since the KDI was founded as a research institution to the Economic Planning Board(EPB) in the development policy planning in 1971, it was in need of a fresh policy conception. At that time, one of the KDI's reports recommended social security savings. This report suggested that if this system were applied to the selected sectors, i.e., manufacturing, services and public administration, and five percent of wage income was saved, then roughly .74 percent of GNP could be mobilised as an additional savings.⁷⁰ This was about 20 percent of the private savings and one-half of the household savings in 1970.

When Paul Fisher, a member of the Foreign Advisory Committee of the KDI, visited Korea for consultation, he hinted that a social security pension scheme not only serves a desirable social objective but also an important economic objective, and , what is more, does not impose a heavy financial burden on the government compared to any other social security schemes.⁷¹ On the other hand, president Mahn-Je, Kim of the KDI took a personal interest in this issue, and he was instrumental in finally convincing

⁶⁸The EPB(1971), The Third Five-Year Economic Development Plan, 1972-1976, Seoul: Government of Korea. p. 150.

⁶⁹Ibid., p. 98.

⁷⁰ Woo H. Nam(1972), Domestic Savings: Projections and Feasibility, Seoul: KDI. Occasional Paper 7201. pp. 25-26.

⁷¹ Joon-Kyu Sohn(1983), Ibid., p. 130.;

Paul Fisher's idea was well represented in his article. See, Paul Fisher(1968), Ibid., pp. 239-261.

top decision makers in the government that a well designed social security programme would not only serve a desirable social goal but also an important economic objective. Dr. Chong-Kee, Park's interest in the subject of social security, on the other hand, was aroused while engaged in a National Planning Association's research project dealing with socio-economic development programmes in the United States

As a result of Paul Fisher's encouragement and his personal interest, President Kim asked Dr. Park to undertake a feasibility analysis and to took into the desirability of establishing a social security pension system in September, 1972. The President of KDI proposed the idea of a social security pension scheme to President Park in a meeting in September 1972. President Park expressed interest and asked at the meeting for the KDI to undertake a study of the scheme for implementation.⁷² From 22 September to 6 October, 1972, Dr. Park visited the United States for discussions with social security experts on the possibilities of introducing a social security pension programme in Korea. A preliminary study paper was prepared on 25 November, 1972, indicating the broad direction and the scope of a proposed social security pension scheme. This was one year before the enactment of the National Welfare Pension Law on 1 December, 1973. The KDI estimated that the scheme could mobilise about 100 billion won in less than two years.⁷³ Discussions were held between the KDI and Deputy Prime Minister and Minister of Economic Planning Board(EPB) about the nature of the proposed social security scheme, and then the President of the KDI met with President Park and his advisers to discuss the potential benefits and costs of the proposed scheme and their policy implications on 30 November, 1972.

The KDI proposed the following recommendations:⁷⁴

(1). To organise a preparatory committee and a working-level subcommittee in order to promote the establishment of a social security pension system and to prepare a detailed plan for it.

⁷² Interview with Chong-Kee Park, Research Director, KDI.

⁷³ Mahn-Jae Kim and Chong-Kee Park(1972), Prospective Scheme for the Social Security Pension Programme, Seoul: KDI. In Korean.

⁷⁴ Chong-Kee Park and Dai-Young Kim(1973), A Proposed Scheme for Social Security Pension Programme, Seoul: KDI. pp. 19-20. In Korean.

(2). Important problems that should be dealt at the working level subcommittee are:

- 1). Drawing up a social security pension law and implementation decree.
- 2). Measuring the volume of administrative operations and required expenditures in the first year of implementation of the system.
- 3). Drawing up a plan for securing administrative personnel and for overseas training of key managing staff.
- 4). Studying public relations devices for pan-national enlightenment about the social security pension system.

(3). To send a group of working-level people abroad in order to observe and study social security systems in foreign countries and organisations such as the United States, Sweden, the United Kingdom, Japan, the Philippines, and International Labour Organisation.

(4). To invite a social security expert from abroad in order to have a consultant on various planning tasks and administrative management during the period of preparation of the establishment of the social security pension system and initial years of its operations.

(5). To establish the Office of Social Security Administration in order to take full responsibility for and administer the effective operation of the social security pension system.

(6). To establish the Social Security Trust Fund Management Committee which is composed of Ministers of EPB, Finance, Health and Social Affairs, and the Director of the Office of Social Security Administration.

President Park formally requested the KDI to undertake an in-depth study to develop the framework of a social security pension programme and to provide technical assistance to the appropriate agency of the government, because the KDI was not a government organisation.

4.5. Conclusion.

In this chapter, we examined two general questions: why did the need for a social security pension programme come to the Korean government's attention in the early 1970s?; and why did a social security pension programme have a priority over other social policies?

As we have examined, the emergence of a social security pension policy can be viewed from different perspectives. It can be argued that the emergence of a social security pension policy was the government's intention to cope with the political, socio-economic pressures through its strategic choices. Therefore, we can say that the development of the Korean social insurance policy seems to be not the outcome solely of ideological commitment, but it seems to be the complex result of political, and socio-economic conflict in the country. Furthermore, contrary to the existence of some Korean scholars' assertions⁷⁵ that a social security pension policy emerged as means of a domestic savings, we examined that pension policy emerged with dual-purposes: socio-political palliation and economic acceleration. The existing general concept of the emergence of a social security pension policy followed in Jun's wake. In his Ph.D. thesis entitled "Establishment of the National Pension in Korea," Jun argues that the idea of a pension programme was conceived to help with the modernisation of domestic capital for HC industries. His opinion was that:⁷⁶

"The government planned to increase the production of heavy and chemical industries in the Third Plan period. The government wanted to achieve this objective by using domestic capital, instead of foreign capital. Capital formulation by domestic savings had been one of the overriding concerns of the government of Korea since it launched the First Plan. In this circumstances, the government needed some other measures that could mobilize domestic savings so that it could still move ahead with the improvement of HC industries as planned in the Third Plan in spite of the constraints of foreign capital import and policies for domestic savings. The idea of a social security pension scheme was conceived as one of these measures."

⁷⁵ Nam-Jin Jun(1980), *Ibid.* ; Ui-Im Oh, *Ibid.*,

⁷⁶ Nam-Jin Jun, *Ibid.*, pp. 72-87.

Jun's assertion was partly reasonable as we examined in this chapter. In my view, however, this opinion laid overemphasis on the economic aspect of social security development, while he left socio-political problems out of consideration. Several interviewees justified my view, especially on the part of the MOHSA side. They said that the MOHSA plan was not to mobilise savings but, rather, to establish a well organised social security system in Korea.⁷⁷ However, in relation to the Jun's opinion, Jae-Sung Min, former research fellow of the SSC/MOHSA mentioned that the initiation of a pension programme was liable to lead to misunderstanding because of the National Investment Fund which allowed the government access to pension funds.⁷⁸ Chun-Song Choi, former chief research fellow of the SSC/MOHSA, confirmed, on the other hand, that they had considered the pension programme as a means of the mobilisation of domestic savings simply for the attention of top policy-makers of the government.⁷⁹ In addition, Chong-Kee Park, research director of the KDI, mentioned that even the KDI did not study the pension programme only as a source of economic acceration. He added that if someone regard the pension programme only as a mobilisation of domestic savings he would lean to the economic development side.⁸⁰

Therefore, we can conclude that the emergence of social security pension policy was due to the following causes and effects.

Firstly, the consideration of the social insurance system in Korea in the early 1970s was a response to the fact that there had been many worker and student protests and much social unrest. From this view point, the emergence of pension policy can be explained primarily as a means of social control and social legitimation in the society in order to diffuse class consciousness and class conflict.

Secondly, according to the adjustment of national development strategy, the Korean government needed the mobilisation of far larger amounts of capital. The Korean policy-makers had become interested in the use of pension funds as a method of increasing savings and mobilizing them for development. Therefore, the economic aspect of social security policy development in Korea was quite different from that of industrialized

⁷⁷ Interview with Chun-Song Choi, Jae-Sung Min, Jong-Kil Im, Yong-Moon Kim, and Jong-Ock Hong. All of them are working for the MOHSA.

⁷⁸ Interview with Jae-Sung Min.

⁷⁹ Interview with Chun-Song Choi.

⁸⁰ Interview with Chong-Kee Park.

countries. The European experience may make it appear that social security is one of the by-products of industrialisation, while, in the Korean case, social security pension policy emerged as an effective means not only to increase savings but also to channel potential savings from unorganised to organised financial markets.

Thirdly, with the improvement of the general economic conditions of the country, the overall expectations of the population for social welfare also increased. Hence, the importance of 'social development' was praised by various segments of the population, and was a growing expectations from the population, primarily in urban areas, for a modern social security system.

Finally, another important political factor in the situation of Korea was related to external conflicts and international pressures. Dialogue was initiated between North and South Korea during the early 1970s. In order to assure a favourable comparison between the conditions of the two different Korean populations, the South Korean government felt the need to pay attention to the social welfare of the population in addition to economic development. Besides, in the early 1970s, several development agencies urged their member states to pay attention to the broadening of the welfare implications of economic development. These international expectations created additional new pressure on the Korean government. In these circumstances, a Regional Conference of the International Council on Social Welfare(ICSW) was planned to hold its five-day discussion in Seoul on standards of social welfare on 3 and 7 September, 1973.

To sum up, the pension policy in Korea emerged in response to various sources and degrees of political and socio-economic pressures. From this discussion, it would be impossible to identify one main reason why the social insurance policy in Korea emerged in the early 1970s. Rather, various environmental pressures were convergent, and the state function was one of responding to these various demands through social security pension policy.

Chapter 5. The National Welfare Pension Policy-Making Process.

As we have examined in the previous chapter, the social security pension policy emerged with dual-purposes: socio-political palliation and economic acceleration. For these purposes, two agencies, the SSC/MOHSA and the KDI/EPB, were interested in the development of the social security pension programme and both made proposals. Speaking in the abstract, these two proposals would be different substantially because of the different intentions of the plan. The EPB's idea gave priority to economic acceleration, while the MOHSA's idea laid stress on socio-political palliation. Whatever the purposes, the NWP policy-making involves a number of important policy issues which Korea seeks to resolve in its own fashion. This is because, as Rimlinger mentioned, the exercise of the state's power on behalf of some individuals, often at the expenses of others, must have a basis of legitimacy.¹ The issue, therefore, must be resolved as to what legitimizes social protection. There are a number of crucial decisions that have to be made. These are:

- (1). To what extent is it the individual's responsibility to look after himself and his family, and to what extent is this a social responsibility?
- (2). Who should be protected, which is another way of saying: who has the right to protection, or who needs to be protected in the interest of the community?
- (3). How broad the cover should be. Should it include only wage workers in certain industries, or wage and salary earners in all industries, or should it be extended to all citizens who work, including self-employed, regardless of their level of earnings?
- (4). How protection should be provided ? This covers the whole range of issues regarding conditions of benefit payment, the level and structure of benefits, and their financing.
- (5). How pension funds should be managed in the pursuit of ancillary social and economic goals ?

For these reasons, we will examine in this chapter how these issues were settled in view of the dual-purposes in the Korean NWP policy-making process.

¹ Rimlinger(1971), *Ibid.*, p. 3.

5.1. Formation of the Working Committee and the Two Proposals.

5.1.1. The Working Committee.

After President Park announced that the government would organise a social security pension system during his New Year's Press Conference on the 12th of January, 1973, the pension issue had formally arrived on the policy agenda. In the beginning, it will be worth mentioning again the two interesting points in the agenda-setting process which we have examined in the previous chapter. The first point is that the MOHSA, as the government agency with the jurisdiction over social security, had been studied and recommended a pension scheme since early 1960s, but it had never been attractive to the president and policy-makers. According to ex-Minister Hee-Sup Chung, there was once, in 1967, a series of sincere discussions between President Park and him about current five-year economic development plan. But, immediately confronting the objection of the EPB, the policy did not come into the political agenda.² How, then, President Park expressed interest when the president of KDI proposed the idea of a social security pension scheme to him in a meeting in September, 1972 ?

Secondly, when President Park made an annual visit to the MOHSA, upon receipt of the briefing, why did he instruct that the MOHSA, the EPB, and the KDI should work together in order that the programme could be effective on 1st of January, 1974. There was a rather unusual measure to the fact that the KDI was included instead of the SSC/MOHSA. Since the KDI, as a research institution to the EPB in the development policy planning, had no legal authority to make decisions and the issue of social development was beyond its formal function.

The answers were that, firstly, the president of KDI seemed to argue convincingly that a social security pension programme need not work at cross purposes with the objectives of development planning and, when integrated with the development plan, could in effect help these objectives. Secondly, bureaucratic policies tend to be determined and implemented by the power of those who suggest them rather than on the substance of the proposed policy. Proposed programmes suggested by a powerful figure(in terms of personal relation with top official) tend to be emphasised; otherwise

² Interview with Hee-Sup Chung, Quoted from Bom Hu(1974), *Ibid.*, p. 152.

they just become programmes with little hope of success. This is true because bureaucrats in high levels of the administrative hierarchy prefer to rely on their favourite persons, irrespective of their ranks and ability. They regard these favourites as their eyes and ears in matters of collecting data for decision-making. Finally, even if mobilization of domestic savings was listed as one of the effects of the programme, it is obvious from the MOHSA's report that the estimate of a reserve fund of 7 billion won in the first year of the programme's operation was very far from the KDI's projection of 100 billion won to be reserved from the social security pension scheme in less than two years of operation. Therefore, the MOHSA's estimation was contrary to Park's expectations. This is the reason why President Park instructed that the MOHSA, the EPB, and the KDI should work together.

These three elements had crucial influence upon the entire NWP policy-making process because, in a political environment like that of Korea, the person "who proposed the idea to the president" has a direct effect on the "how the agenda would be deliberated" in the policy-making process.

To carry out the President's instruction, Mahn-Jae, Kim and Dr. Jong-Kee, Park met with So-Young, Chung, a Chief Economic Secretary to the President, and Joo-Nam, Kim, an Assistant Vice-Minister for Planning in the EPB, to discuss the formation of a working committee and to lay out the detailed planning for the introduction of a social security programme. The discussion was later joined by Won-Kyu, Kim, Director of Planning and Coordination in the MOHSA, and Joon-Ik, Park, Director of the Social Affairs Bureau in the MOHSA.³ As a result of this meeting, the Vice Prime Minister and Minister of EPB, Wan-Son, Tae, appointed a Working Committee to prepare a draft legislative package on 31 January, 1973.⁴

After the formation of the Working Committee, the MOHSA submitted its working plan of the National Welfare Pension(NWP) programme for consideration by the Working Committee in February 1973, and the KDI

³ Chong-Kee Park(1975), *Ibid.*, p. 105.

⁴ The Committee members were:

1). Kie-Wook Lee: Economic Coordinator, the EPB; 2). Joon-Ik Park: Director of Social Affairs Bureau, the MOHSA; 3). Won-Chan Chang: Director of Pension Bureau, Ministry of Government Administration; 4). Sang-Yoon Lee: Director of Workmen's Compensation Insurance Bureau, Office of Labour Affairs, The MOHSA; 5). Chai-Sung Min: A Senior Research Staff in the SSC, the MOHSA; and Chong-Kee Park: A Senior Research Staff, the KDI.

submitted a preliminary version of the proposed Social Security Pension scheme on 2nd of March, 1973.⁵

5.1.2. The Two Proposals.

As we will examine in the following sections, there were substantial differences between the two proposals. Most of the differences resulted from the different intentions of the plans. Another reason was that the MOHSA's proposal was modelled after the two Japanese social insurance programmes, while the KDI's plan was influenced by the social security system of the United States with the consultation of many people from the US and their member's former experiences from that country.⁶ In this section, we will analyse these two proposals in comparison with other countries with matters relevant to the subjects. For this, we will divide these proposals into five categories: coverage, finance, types and amount of benefits, organisational structure, and utilization of the reserve pension fund. This is because these five categories would simplify matters in explaining the differences.

A. Coverage.

The most desirable goal of a social insurance programme is that all persons--regardless of income level, type of employment, citizenship, or age-- should be covered by the system. Basically, this goal of universal coverage rests upon broad principles of social justice. In practice, however, the objection can be made that universal pensions flow, to a certain extent, to persons who do not need them, but, in fact, upper-income elderly persons are likely to pay as much, or nearly as much, in taxes as they receive in benefits. Moreover, the evenhandedness of universal pensions has distinct disadvantages in relation to groups that can be bypassed under social insurance systems. The history of universal pensions also suggests certain problems. Nearly all of the countries with universal pensions now have income-tested supplements that bring the minimum income of the aged

⁵ Chong-Kee Park(1975), *Ibid.*, p. 105.

⁶ Interview with Jae-Sung Min and Chong-Kee Park.

above the level of the universal pension if the universal pension no larger provides a subsistence level of income as a result of inflation.⁷ This is a considerably less costly way of providing a minimum income that is regarded as adequate than raising the universal pension of all recipients to that level.

For these reasons, as many cases of social security programmes both developed and developing countries, there are some universal restrictions of coverage. However, these universal restrictions of coverage in the developed countries are different from those of the developing countries. Most of the industrialized countries prescribed the upper-income limit of coverage restriction, while the developing countries stipulated for the lower-income limit restriction of coverage. For example, the German Law of 1889 covered wage earners in most industries, including agriculture and domestic service, as well as salaried employees earning no more than 2,000 marks a year. The principle of excluding salaried workers with earnings above a certain level had been established in the sickness insurance legislation, presumably on the assumption that those earning more than the maximum amount could afford to pay for their own medical care or could purchase private insurance.⁸ In case of the Japanese pension programme which was emulated by the MOHSA's proposal, there are two major public pension mechanisms. First is an "Employment Pension Insurance Scheme," covering all employees in 'covered working places' employing 5 or more people at the initial stage. Others who may be covered voluntarily by employees insurance are: (1). All workers in establishments other than 'covered' places(e.g. smaller than 5 persons) as long as more than half-agree. (2). Individual workers in uncovered places, with the employer's consent; and (3). Persons ineligible for any of the above but who, having at least 10 years prior coverage, wish to insure themselves. The second public pension programme is called the "National Pension." This is divided again into contributory and non-contributory sections. The contributory scheme is sufficient to make contributions and who are not otherwise covered, except for spouses of the insured, students, and persons already pensioned or who were over 50 in 1961. The non-contributory scheme is designed for all those

⁷ Margaret S. Gordon(1988), Social Security Policies in Industrial Countries: A Comparative Analysis, Cambridge: Cambridge University Press. p. 39.

⁸ Ibid., p. 40.

who were unable to contribute to the contributory scheme because of age or low income.

As in most cases of social security programmes in developing countries, coverage remains restricted to those in the most highly paid and secure employment. This link between formal waged employment and participation in a social security scheme is extremely common, whether the specific form of provision is based on a provident fund or social insurance schemes.⁹ Therefore, the most obvious feature of a social insurance scheme in developing countries is that it covers only a tiny proportion of the population.

As in many other developing countries, the two proposals prescribed the lower-income limit of coverage restriction. The two proposals are as follows.

(1). The MOHSA Proposal: Qualifications and categories of the subscribers are citizens of the Republic of Korea aged 20 years through 60 years. Subscribers are divided into three classes:

- a). Class I subscriber: Employed workers and will be eligible on 1 January, 1974.
- b). Class II subscriber: Self-employed and will be eligible beginning on 1 January, 1976.
- c). Class III subscriber: Those on public assistance and will be eligible beginning on 1 January, 1981.

(2). The KDI Proposal: Qualifications and categories of the subscribers are citizens of the Republic of Korea aged 18 years through 60 years who are employed in one of these businesses: a). Mining and manufacturing; b). Construction; c). Electric enterprises; d). Commerce; e). Banking; f). Transportation; g). Service(1974-1976: thirty or more employees, 1977- : ten or more employees); h). Self-employment with an income of more than 180,000 won per year, which is the tax exemption limit.

This limited coverage followed the precedent of the previous social security systems in Korea. For example, the article 28 of the Employment Standard Act of 1962 specifies that any employer who employs thirty or more workers must furnish a Retirement Allowance Programme for his

⁹ Stewart MacPherson(1987), "Social Security in Developing Countries," Social Policy and Administration, Vol. 2 No. 1. p. 6.

employees, while the Industrial Accident Compensation Act of 1963 enforced the employees of the business enterprises employing more than 500 workers. Many policy-makers justified the limited coverage of the pension programme for an early stage of its implementation for the following reasons. Firstly, the administrative difficulties of collecting contributions outside the large urban undertakings¹⁰ as well as the financial inability of the rural workers, peddlers and other similar groups to pay for their own NWP contributions will impose the practical limitation on the coverage of the proposed pension scheme at least for the initial period.¹¹ Secondly, the limited coverage in the initial phase will give a valuable period of gaining experience, insights, administrative capacity and public support with respect to the NWP programme.¹²

Nevertheless, the limitation of coverage will produce many problems. Because of the limited coverage, this scheme will not adequately protect ordinary people against the contingencies which threaten their incomes nor will it replace the traditional systems of care which are being subjected to the strains of social change in Korea. Nor will this scheme effectively contribute towards raising the levels of living of the poor through redistribution. Indeed, it will be argued not only that the NWP programme will fail to redistribute resources towards the most needy groups to any significant extent but that it will reinforce and even accentuate inequality in Korea. The NWP programme will reinforce inequality because it caters only for a small proportion of the labour force who are engaged in regular waged or salaried employment in the urban areas; the majority of the population who work in subsistence agriculture or in the urban informal sector, are excluded.

B. Financing.

When policymakers consider how to pay the costs of pension, more than a method of finance is at stake. Financing is more than a means to an end. It is central. Social insurance schemes are distinguished from other forms of social security by the fact that they are financed from the regular contributions of their members together with those of the employer and the

¹⁰ Interview with Yong-Moon Kim, Jae-Sung Min and Chong-Kee Park.

¹¹ Interview with Jong-Ok Hong and Chong-Kee Park.

¹² Sung-Yun Lee et.al.,(1971), *Ibid.*, p. 44.

state and that they provide protection to their members and their families against a number of risks or contingencies which interrupt, reduce, or terminate income or which place an additional burden on income.¹³ Therefore, it is of course important to understand why this was so and why policymakers became committed to the payroll tax as the sole source of revenue. Besides their choice of a tax source, it is also important to understand the policymakers' choice of rate.

Perhaps the most significant point that can be made about the financing of a social insurance programme is that the general pattern of relatively substantial contributions from general government revenues in the British Commonwealth and Scandinavian countries, contrasted with heavy reliance on contributory employer and employee taxes in many of the Western European countries and the United States, prevails, as it does in the financing of social insurance programmes in general.¹⁴ This largely reflects the more substantial role of universal pensions and income-tested benefits, which are usually financed from general revenues in the British and Scandinavian countries, and the much greater reliance on earnings-related social insurance programmes in many of the continental countries and the United States. At one extreme are Australia and New Zealand, where pension programmes are flat-rate and financed entirely from general government revenues, and at the other extreme are France and the United States, where pension programmes are financed entirely, or almost entirely, by contributory taxes. In the British case, for example, old age pensions were brought into the National Insurance Scheme by the Contributory Pension Act of 1925; previously they had been paid out of general tax revenue and subject to a means test. From then until 1961, the British system of social insurance was based firmly on the principle of 'flat rate' benefits in exchange for 'flat rate' contributions. According to the German social insurance law of 1889, on the other hand, contributions were earnings-related and were equal for employees and employers, while the Imperial Government provided a subsidy of 50 marks a year for each recipient of a pension and paid certain administrative expenses. With three sources of funds--employers, employees, and the government--the German provisions

¹³ James Midgley(1984), *Social Security, Inequality and the Third World*, pp. 89-90.

¹⁴ Margaret S. Gordon(1988), *Ibid.*, p. 75.

established the principle of tripartite financing which was followed by many other European countries in their social insurance schemes.

As we mentioned before, one of the outstanding changes during the period since World War II has been the development of income-maintenance programmes for the aged, survivors, and the disabled(OASI programmes) which are more complex in basic structure than those that had developed earlier. There has been resistance to increase in the contributions from general revenues under conditions of budgetary stringency, but there has also been resistance to increases in employer payroll taxes as a way of meeting rising costs, particularly in view of the problem of maintaining the competitive position in international trade that has been crucial for many countries. Furthermore, both types brought out some fundamental issues. First, if flat-rate contributions are levied, social insurance contributions are a generally regressive form of taxation. For example, the flat-rate contribution of 11s. 8d. a week payable by employed men represents 5.8 percent of a wage of £10 but only 1.2 percent of a £50 salary. The implication of these figures are obvious.¹⁵ Therefore, the more we rely on flat-rate employees' contributions rather than progressive taxes to pay for National Insurance, the greater the proportion of the cost borne by the lower-paid worker. In short, while the flat-rate contributions paid employers may be less objectionable than the employees' flat-rate contribution, it would be a mistake to regard them as a method of 'soaking the rich.' They may, on balance, have the opposite effect. Secondly, the basic problem facing most countries with earnings-related insurance systems in the 1950s was the tendency for wages to rise steadily with the result that benefits based on average lifetime earnings were inevitably inadequate in relation to current earnings at the time of retirement. West Germany was one of the leaders in facing this problem, in its important pension reform legislation of 1957. Average lifetime earnings still play a role in benefit determination, but the revaluation process involves computing the ratio of earnings of the individual retiree during the years he or she has worked, to the national average earnings level in each of those same years. The average ratio is then multiplied by the national average earnings in the three years prior to the year preceding the retiree's

¹⁵ Tony Lynes(1969), Pension Rights and Wrongs: A Critique of the Conservative Scheme, Fabian Society. p. 5.

application for benefits.¹⁶ Furthermore, the countries that had begun with an earnings-related social insurance system eventually recognised the need for some type of minimum income guarantee to protect those that had never been covered by the social insurance system, or who, for one reason or another, had failed to develop rights to an adequate pension. From this perspective, it is now more appropriate to refer to three-tiered systems in many cases, sometimes involving mandatory or nationwide collectively bargained employer pensions that supplement the public two-tiered system and sometimes consisting of complex combinations of universal, means-tested, and insurance benefits.

According to the MOHSA's proposal, the financing method is different between Class I and Class II. In the case of Class I, the financing formula was a two-tiered system: flat-rate contribution and earnings-related contribution. In the Class II case, on the other hand, the financing was formulated with the flat-rate portion.

Another controversial issue is the choice of a contribution rate. The choice of a contribution rate was to some extent determined by the choice of a type of contribution. If the payroll tax were to support the programme exclusively, it would have to be higher than if the direct use of general revenues were planned for. Policymakers could choose to set a fairly high rate and build up a big reserve fund to meet future costs, or they could minimize the rate by basing it on current costs, which began low. Considering its economic significance upon both employers and employees, the proposed two proposals are as follows.

(1). The MOHSA Proposal:

- a). Class I: Subscriber will pay 3 percent of the monthly earning as a monthly subscription fee and their employers shall do the same.
- b). Class II: Subscriber will pay 400 won per month beginning in January 1976.
- c). Class III: subscriber's subscription fee, 1,000 won, will be subsidized by the government, beginning in January 1981.

¹⁶ Margaret S. Gordon, *Ibid.*, pp. 58-59.

(2). The KDI Proposal:

a). One plan was to be chosen from three alternative plans.

	Plan I	Plan II	Plan III
Employee	3 %	4 %	5 %
Employer	3 %	4 %	5 %
Self-Employed	5 %	6 %	7 %

As we have seen above, an equal amount of contribution will be charged to his employers. However, as one report concluded, the amount of contribution rate would not be so serious for most employers who would be subject to participate in the pension programme at initial stage.¹⁷

The final issue is a government subsidy from the general revenues. There are pros and cons of government subsidies.¹⁸ Several arguments have been given for introducing government subsidies as a major source of finance for social security. The first argument is the 'logic' approach. Three parties are involved in economic security--the worker, the employer, and the government--and it is reasoned that each should pay equally. A second argument in support of government subsidies is that there would be substantially higher general-revenue costs for public assistance if there were no social security system. Therefore, it is argued, some of the resulting savings to the General Treasury because of the existence of social security should be given to that programme. A third argument in favour of a government subsidy is that higher direct contribution rates would be difficult to levy. Accordingly, this is the only way that benefits can be increased substantially. Quite obviously, if equal tripartite financing were put into effect, the general benefit level could immediately be increased by 50 percent.

However, one problem with financing through government subsidies is that, for budgetary or political reasons, the payments may not be made in the amount required or at the time specified. It is not conceivable that reliance on government subsidies for financing a major portion of the cost of the social security programme could lead to its collapse or to partial repudiation of benefit obligations. Another difficulty which may arise if there is financing through government subsidies is the pressure that would be generated to

¹⁷ Seung-Yun Lee, et.al.,(1971), *Ibid.*, p. 55.

¹⁸ See, Robert J. Myers(1970), *Expansionism in Social Insurance*, The Institute of Economic Affairs, Occasional Paper No. 32. pp. 25-27.

impose a means test on the beneficiaries, so that those who would substantial other income would not be paid benefits. This would possibly occur on the grounds that people with large incomes should not receive payments which are partially financed from general revenues. Regardless of these pros and cons of government subsidies, most industrialised countries contribute towards the cost of social insurance programmes.

One common feature to the two proposals is that the programme is financed solely through contributions by employers and employees, even though the proposals clear the way for the government intervention. The MOHSA's proposals are: a). The government's National Treasury will provide expenditures necessary for the annual operation of the pension programme up to 5 percent per year of the whole collected funds; b). The government may subsidize the subscription fee of Class II subscribers when they are exempted from paying the contribution. The KDI's proposal, on the other hand, only mentioned that the government will subsidize when the pension fund runs into the red.

Originally, the MOHSA members did not propose to rely solely on the payroll tax. They believed that the combined payroll tax rate(the employee tax and the employer's matching share) should not be allowed to rise above a certain percent, and that when that rates was reached, there should be intervention with general government funds.¹⁹ They reasoned that a rate higher than a certain percent might impair the living standards for workers and that the employer's share might actually fall on workers. However, the others, especially economic planners, opposed the government subsidy because they feared the loss of revenue that would otherwise be available for the financing of economic development.²⁰ The EPB-side of policy-makers were really afraid of the loss of revenue that would otherwise be available for the financing of economic development. In addition, several objections to using general revenues were adduced by policymakers: that it would be unfair to persons who were not covered by the system; that it would remove all restraints on spending; that it would be financially safe; and that it would make the protection an earned right.²¹

¹⁹ Interview with Chun-Song Che.

²⁰ Interview with Chun-Song Che.

²¹ Interview with Chong-Kee Park.

C. Types and Level of Benefits.

Social security replaces income that is lost because of a worker's retirement, disability, or death. Obviously, one of the leading policy choices posed by their programme is how much income it should provide. The rate of annual pension benefits are quite different in individual countries with different bases of determining the level of pension rate. However, the discussion concerning the level of benefits might induce far greater complicated problems in the future. That is, by either charging too low a contribution rate or paying too high benefit, the reserve funds would be depleted in the foreseeable future unless the government took some measures to cover the net decrease of the funds reserved. By charging high or contribution rate, and paying relatively low rate of pension it is expected that the contributors would soon be discouraged from participating in the programme. Furthermore, so long as benefits under the contributory insurance programme remain at totally inadequate levels while the non-contributory assistance payments steadily increase, the contributory programme is threatened.

However, like financing methods, the benefit structures are in general divided into two broad types according to whether the pension amounts payable are the same for all recipients of a given status, or vary among beneficiaries in close relation to their past contributions or past earnings.

The former type is commonly referred to as a 'flat-rate' scheme. The size of benefits does not vary with the previous earnings of individual claimants. The first pension scheme in Britain paid a flat-rate pension without the need for previous contributions, but when contributions were introduced they were initially set at a fixed value per person. Until 1961, the British system of social insurance was based firmly on the principle of 'flat-rate' benefits in exchange for 'flat-rate' contributions. The Beveridge Report endorsed it unequivocally that:

"...Social insurance and national assistance organised by the state are designed to guarantee, on condition of service, a basic income for subsistence. The actual incomes and by consequence the normal standards of expenditure of different sections of the population differ greatly. Making provision for these higher

standards is primarily the function of the individual, that is to say, it is a matter for free choice and voluntary insurance.”²²

Whatever differences there might be in incomes derived from work, Beveridge argued, those whose earnings were interrupted or terminated must receive equal treatment from the state. According to this method, the lower the previous earnings of an employee are, the higher percentage thereof is presented by his pension, and vice versa. A flat pension involves certain difficulties in the case where there is considerable variation among the wage of different workers. The amount of flat pension selected may be unduly low in relation to the wages of higher-paid workers, thereof reducing their interest in expected pension after retirement.

The latter type, which relates the pension of individual beneficiaries to prior earnings is in force in the great majority of old-age pension plans. The proportional rate of contributions is usually constant, except that there may be an upper limit to the value of earnings on which contributions are levied. Earnings-related contributions may be combined with earnings-related pensions, whereby the benefits are calculated as a proportion of some measure of earnings obtained during the individual's lifetime. In this case, the methods of averaging a worker's earnings for pension calculation purpose is of considerable importance because individual's earnings vary considerably throughout their career and because earnings include fringe benefits and other transitory components. If pensions were directly proportional to pensionable earnings, then of course those in poverty during their working lives would tend to remain in poverty during old age.

As we have seen above, both of the benefit structures have certain defects. For this reason, the actual programme that emerged was a hybrid: hybrid in flat-rate benefits with earnings-related benefits.²³

In determining the benefit structure for the Korean pension programme, the two proposals suggested the same hybrid approach which combines both flat-rate amount and earnings-related pension. As we can see in the

²² Sir William Beveridge(1942), Social Insurance and Allied Services, London: Her Majesty's Stationery Office, Cmnd. 6404. p. 121.

²³ For the methods of the hybrid, see, John Creedy(1982), State Pensions in Britain, Cambridge: Cambridge University Press, pp. 19-33; and John Creedy and Richard Disney(1985), Social Insurance in Transition: An Economic Analysis, Oxford: Clarendon Press, Especially Part Two.

following two proposals, four different kinds of benefits are provided. A person who has attained insured status may receive retirement benefits for himself, and dependent's benefits for his spouse and children. When the insured dies, survivor benefits are paid to the surviving spouse, children and dependent parents. For an insured person, disability benefits are paid if he is too seriously disabled to work. Finally, a lump-sum is payable to persons who are not qualified to receive pension benefits. However, the two proposals are in striking contrast in relation to the benefit formula and benefit level. The two proposals are as follows.

(1). The MOHSA Proposal: The MOHSA's proposal provides four different kinds of benefits. A person who has attained insured status may receive retirement benefits for himself, and dependent's benefits for his spouse and children. When the insured dies, survivor benefits are paid to the surviving spouse, children and dependent parents. For an insured person, disability benefits are paid if he is too seriously disabled to work. Finally, a lump-sum is payable to persons who are not qualified to receive pension benefits.

1). Old-Age Pension.

Class I Subscribers: a). When the subscriber is unemployed: he will be paid basic pension²⁴ and additional pension, when he reaches age 60(55 for women, miners, and seamen); b). When the subscriber is employed: he will be paid eight-tenths of the basic pension and additional pension, when he reaches 65; c). In both cases they have to have subscribed to the pension fund for more than 20 years(15 years or more for miners and seamen).

Class II Subscribers: When the subscriber reaches age 65, he will be paid 320 won multiplied by the number of subscription fee paid months plus 320 won multiplied by one-third of the number of months exempted from paying the subscription fee. The subscriber has to have subscribed to or been exempted from paying subscription fee for more than 25 years.

²⁴ Basic pension= Fixed sum + proportional allotment.

Fixed sum= 290 times the number of subscription period.

Proportional allotment= average monthly wage of the whole subscription period times 1% times the number of the subscription period.

Class III Subscribers:

- a). They will be paid when they reach age 65; amount is not specified;
- b). Exemptions: When those men who are 40 years old or more(35 for women and miners) at the time of the effective of the programme reach age 60 or 65, they can still get paid the basic pension as long as they have paid a retroactive subscription fee for up to 10 years to make up the 20 years of subscription payment period. They will have to pay double the amount of the subscription fee, since the employers are not to pay the retroactive subscription fee for the employee.

2). Disability Pension:

Class I Subscribers: Subscribers who have subscribed to the pension fund for more than one year will be paid disability pensions when they incur disease or injury according to the degree of disability determined two years after the first medical examination of such disease or injury, and when they are not covered by the Industrial Accident Compensation Act or the Labour Standard Law.

- a). 1st degree disability(loss of 100% earning ability):
120 percent of basic pension + additional pension.
- b). 2nd degree disability(loss of 75% earning ability):
basic pension + additional pension.
- c). 3rd degree disability(loss of 50% earning ability):
70 percent of basic pension + additional pension.
- d). 4th degree disability(loss of 30% earning ability):
50% of basic pension + additional pension.

Class II Subscribers: a). Qualifications are the same as Class I subscribers except they have to have subscribed to the pension fund for more than three years; b). The amount is the same as the old age pension for Class II subscribers(minimum 12,000 won will be guaranteed) plus 25 percent additional pension for 1st and 2nd degree disability, and 15 percent for 3rd and 4th degree disability.

3). Survivor Pension:

Class I Subscribers: a). When present subscribers of the pensioners of Class I old age pension and disability pension(1st and 2nd degree disability) die, the surviving members of their families are paid survivor pensions in the order of spouses and children, parents, grandchildren, and grandparents

supported by the recipients at the time of their death; b). When spouse and children are eligible, they are paid 60 percent of basic pension plus additional pension(minimum 12,000 won will be guaranteed), for others, 60 percent of basic pension is paid; c). Subscribers have to have subscribed for more than one year.

Class II Subscribers: a). When present subscribers or the pensioners of the Class II old age pension and disability pension(1st and 2nd degree disability) die, the subscribers pensions will be paid at the amount of 60 percent of the Class II old age pension plus additional pension to spouse and children(minimum 12,000 won will be guaranteed); b). For others(parents, grandchildren, and grandparents) at the amount of 60 percent of the Class II old age pension; c). The subscribers have to have subscribed more than three years.

4). Lump-Sum Refund:

Class I Subscribers: a). When the subscribers lose qualifications and have reached age 60, or it has passed 20 years since the first day of subscription, they will be paid a lump sum at the amount of average monthly standard wage times the rate prescribed by law; b). They have to have subscribed for more than three years(one year for women).

Class II Subscribers: a). when the subscriber loses qualification and has reached age 65 or passed the period of exemption from one-third of the paying the subscription fee, which is the total subscribed period, he will be paid a lump sum at the amount of average monthly wage equivalent to 60 percent of the monthly average wage of all workers times the rate prescribed by law; b). The subscribers have to have subscribed for more than two years by paying the subscription fee.

(2). The KDI Proposal: The KDI proposal provides three different kinds of benefits: old age pension, disability pension, and survivor pension.

1). Old Age Pension: a). When the subscriber reaches age 60(55 for women) and retires, and if he has subscribed for more than 120 months(10 years), he will be paid 30 percent of his average monthly income for the immediate past five years(35 percent for the subscriber who earns below

15,000 won per month); b). If the subscriber continues to work and earns more than 15,000 won per month, the excess income will be deducted from his pension; c). If the subscriber has subscribed for more than 120 months, he will be paid additional pension equivalent to one percent of his average monthly income for the immediately preceeding five years for additional 12 months' subscription.

d). An exception: Those who are age 51 and older in 1974 and employed in an eligible business will be paid the same pension as the regular subscriber, if he has subscribed for the rest of the subscription period until 60(at least 5 years); when less than 60 months, a lump-sum refund will be made at the amount at the rate of one month's basic pension times every 4 month's subscription, up to 85 percent of the average monthly income.

2). Disability Pension: a). When the subscriber is under age 60(55 for women) and has lost two-thirds of his earning ability by decease or injuries, he will be paid 30 percent of the average monthly income for the immediate past 5 years, if he subscribed for 36 months; b). If he has subscribed more than 36 months, additional pension equivalent to one percent of the average monthly income for every additional 12 months will be paid; c). If the subscriber is permanently disabled, additional pension equivalent to 10 percent of the every monthly income for the immediate past 5 years will be paid.

3). Survivor Pension: a). When the subscriber dies of disease or injury, and the spouse is over 55 years of age, the survivor pension is paid; b). When the spouse is disabled or has children, the pension is paid even if the spouse is under 55 years of age; c). When the spouse is under 55 at the time of the subscriber's death, the spouse will be paid 50 percent of the basic pension of the subscriber for 3 years; d). The subscriber's children under age 18 will be paid 20 percent of the basic pension of the subscriber per child until they reach age 18; e). If the children have no parents left, then they will be paid 30 percent of the deceased parent's basic pension; f). If there are no immediate survivors, then the subscriber's parents will be paid 30 percent of the basic pension of the subscriber.

In a comparison of the two proposals, the KDI's proposal is more simple and benefits levels are much more tight-fisted than that of the MOHSA's

proposal. This is caused by the different intentions of the plans which we mentioned already. However, both of the proposals will not be sufficient to cover the amount needed for a reasonably high rate of pension with 3 or 5 percent of contribution rate. In the future, therefore, the funds accumulated with the contribution of both employer and employee might induce far more complicated problems. That is, by either charging too low contribution rate or deplete in foreseeable future unless the government take some measures to cover the net decrease of the funds reserved. By charging high rate of contribution, and paying relatively low rate of pension it is expected that the contributors would soon be discouraged from participating in the programme.

D. Administration of Pension.

Administration of the pension scheme and management of the pension funds were one of the most important issues in the Korean pension policy-making process because these items would affect the purposes of pension policy initiation which we examined in Chapter Four. Social insurance schemes are administered by quasi-governmental organisations which are directly responsible to government, although in some countries there are several organisations of this kind catering for different categories of workers while, in others, one organisation administers a unitary, central scheme for all workers. In the German case, for example, the insurance institutions were organised by the government of the various states; they were staffed by paid government officials, but also included representatives of employer and workers in equal numbers.²⁵ These organisations receive the contributions of members and their employers and those of the state, manage these revenues, and pay benefits when required. Those responsible for the administration of these funds are required to maintain an adequate balance between contributions and benefits but, since they normally do not have the authority to vary the level of contributions or benefits directly, they must request the government to order increases in the rate of contribution if benefit levels fall well behind the cost of living or if the fund is danger of depletion.

²⁵ Margaret S. Gordon(1988), *Ibid.*, p. 41.

There are basically two polar methods of operating pension schemes: the "funded" and the "pay-as-you-go" schemes. However, in practice, very few schemes adhere rigidly to either method.²⁶ In the former scheme, all contributions are effectively deposited into a fund, which accumulates at compound interest. These funds are then used as retirement and other contingencies, to pay the claimed benefits. The fund may be administered on a risk pooling basis, for a group of individuals who are thought to face risks, and the scheme may have an explicit degree of income redistribution built into it. All individuals may not therefore expect the same rate of return from their contributions, although the system as a whole must be self-financed. The fully funded method has a considerable capacity to generate savings due to the creation of reserves. When programmes are newly established, social security contributions have a high income elasticity of yield as the contribution base is increased, i.e., as coverage is expanded, thereby bringing in added revenues from more participants and for a wider range of contingencies covered. The later the retirement age, the longer the postponement of benefit payments. Also, if borrowing is not widely allowed against contributions, the potential for savings generation is high. Since contributions are predictable throughout the working life and benefit payments are actuarially determinable, there appears to be greater freedom in mobilising these savings on a long-term basis.²⁷ The accumulated funds thus formed through the generation of savings may be used for necessary consumption or long-term investment which we will examine in the following section.

In the latter scheme, their rigorous application would involve the complete absence of a fund, and pensions and contributions would be adjusted regularly according to demographic changes, growth or inflation. In practice, however, a partial fund is often accumulated and contributions may include a donation from central exchequer funds as well as some of the revenue from contributions.

One of the reasons for change from the funded to the pay-as-you-go scheme was the adverse impact of inflation on the value of reserves, and indeed, the entire array of uncertainties surrounding estimates of future benefits and costs in an unstable economic environment. Another important

²⁶ John Creedy(1982), *Ibid.*, p. 13.

²⁷ Parthasarathi Shome(1978), "Social Security as a Mobilizer of Savings: The Experience of Malaysia," *International Social Security Review*, Vol. No. 1. p. 61.

factor has been reluctance to impose on the present generation of workers tax burdens high enough to meet much larger costs in the future as the aged population increases and systems mature.²⁸ The result of pay-as-you-go financing is to bring about intergenerational transfers from present workers to retired, disabled, and survivor beneficiaries. Therefore, it is often argued that the successful operation of pay-as-you-go scheme requires a social contract between three generations: present-day workers pay their contributory taxes on the understanding that a future generation of workers will in turn pay taxes to finance the benefits that will accrue to them in the future. The result of this transfers is a reduction in income inequality because although the contributory taxes are regressive, the benefits flow in large part to persons who have little other income. However, in most social insurance systems the transfers are from persons with average earnings to low-income recipients, not from high-income to low-income persons.

In relation to the administration, both proposals recommended the funded scheme because the funded method has a considerable capacity to generate savings due to the creation of reserves. Therefore, this method would coincide with one of the purposes of pension policy-initiation, namely, economic acceleration. However, the two proposals are contrary to each other in relation to the organisational structure. The MOHSA proposed that a new National Welfare Pension Bureau would be created in the MOHSA in the central government and then, the bureau will utilize the local Office of the Labour Affairs throughout the country until the bureau establishes its own local branches; whereas the KDI proposed a new autonomous Office of Social Security Administration in the central government and the Office of Social Security Administration would establish local offices but the task of collecting subscription fee will be performed by the Office of National Tax Administration. These two proposals are poles apart in relation to who would manage the pension funds. In other words, this issue would be a potent influence on the priority of the suggested purposes, namely, whether the NWP programme would be a means of economic acceleration or a means of socio-political palliation.

²⁸ Margaret S. Gordon(1988), *Ibid.*, p. 80.

E. Means to Utilize the Reserve Fund.

Finally, what is crucial in considering the role of social security in development is how these funds derived from the surpluses of social security schemes are used. Is the financial health of the fund to be a first consideration and maximum yield and security sought? Should reserves be used primarily in the interest of contributors, through, for example, loans to insured persons for housing purposes and credits to employees to finance the expansion of their enterprises? Should the funds be channelled to those sectors of the economy which would make an immediate contribution to economic growth? Is the financing of the social and health infrastructure a priority use of the funds?

In relation to the Korean pension policy, these issues are very important and controversial in the policy-making process. The social insurance policymakers differ among themselves on use of the reserve funds. The planners on the economic side would like to see these funds used for investment in economic development projects according to planned priorities and, as a rule, turned over to the national treasury. Social security administrators, on the other hand, are primarily concerned with the protection of the reserve funds for present and future beneficiaries--that is, their safety, the maintenance of their purchasing power, and the highest possible yield compatible with liquidity and safety.²⁹ Some may feel that programmes designed to benefit low-income groups--such as housing, education, health, and sickness insurance--are those that need support. On the other hand, trade unions and similar organisations often attempt to limit investment of reserve funds to projects that would benefit the insured workers immediately(such as consumer credit, mortgage credit, subsidised housing etc) on the basis that reserve funds are nothing but a repository of the savings of the contributors.

According to these conflicting viewpoints, the use of reserve funds should be based on four principles, namely security, yield, liquidity, and contribution to economic development. This principles would certainly be accepted but the problem remains of defining what is of 'social and economic utility.'

In the majority of nations, a substantial part of reserve funds is invested in domestic financial or physical assets. In the Japanese case, for example, the investment is available for "social purposes," including 20 percent for local

²⁹ Paul Fisher(1968), *Ibid.*, p. 256.

improvements, of their social purposes, about 25 percent goes to housing, 13 percent to developing small businesses, and over 11 percent to building homes for the aged.³⁰ However, the financial assets of social security institutions in many developing countries are primarily invested in government obligations. Even though channelling the funds through the state may not be a guarantee towards development, the funds may increase the pool available to the government, which can then be utilised for different purposes in the public or private sector, according to national priorities in a way that will increase productivity and taxable capacity. The physical assets range from highly profitable investment in land, apartment buildings, resort development and luxury and middle-class housing to hospitals and medical facilities designed to assist related short-term social insurance programmes.

Examples of all these types of investment of social security funds are to be found--and the list is by no means exhaustive. There is, of course, no one answer as to how the funds should be invested and decisions as to their use will depend on perceptions of what are the most urgent needs of the country and on its approach to development.

As we mentioned already, the EPB's idea gave priority to economic acceleration, while the MOHSA's idea laid stress on socio-political palliation. These ideas were reflected in the two proposals respectively. Long-range perspective of the MOHSA proposal was the same as the one presented to the President on his annual visit to the MOHSA, except for slight changes in the estimates of the reserved fund. The revised long-range perspective was suggested in Table.

In relation to the means to utilize the reserve funds, the MOHSA's proposal focused on safety and high returns by: a). Deposition as fund for public finance; b). Undertaking credits which yield high return such as industrial credit debenture; c). Deposition at the banks; d). Establishment and operation of social welfare and medical facilities.

³⁰ David E. Woodsworth(1977), Social Security and National Policy: Sweden, Yugoslavia and Japan., London: McGill-Queen's University Press. p. 116.

Table: Long-Range Perspective.

Year	Total Population	Organ.of Automatic Application	Pension Subscriber	Employed	Estimates of Reserve Fund (Billion won)
1974	33,340,000	Employing 1,000 or more--	330,000	10,906,000	7
1976	34,350,000	--500 or more	710,000	11,737,000	21.2
1978	35,310,000	--30 or more--	2,350,000	12,631,000	62.0
1980	36,240,000	Self-employed	4,350,000	13,593,000	146.8

On the other hand, the KDI suggest the following table and stressed the investment as productive capital.

Table: Long-Range Perspective:

Year	Total population (A)	Pension Subscriber(B)	Employed (C)	B/A	C/A	Estimates of Reserve Fund ³¹ (Billion Won)
1974	33,340,000	1,478,000	10,906,000	4.4%	32.7%	46.5
1976	34,350,000	1,712,000	11,737,000	5.0%	34.2%	181.6
1978	35,310,000	2,218,000	12,631,000	6.3%	35.8%	407.2
1980	36,240,000	2,463,000	13,593,000	6.8%	37.5%	728.9

³¹ Calculation of the reserve fund is based on Plan III.

5.2. Preparation of the Draft Bill.

5.2.1. The First Outline.

The Working Committee had twelve meetings to review and examine the two plans submitted for consideration. However, the Working Committee decided only a few issues such as the coverage and the survivor pension which were not so controversial. The main reason was that, as we mentioned already, the structure of policy-making in Korea was culturally and politically centralised to the high central government policy-makers. Therefore, they did not have the final say. The Working Committee decided to draw up a first outline of the pension system based on agreed items, but also to report two different opinions which were not agreed upon among the Committee members. The Committee decided to leave for the Vice-Ministers' Meeting to choose between the different opinions.³²

5.2.2. The Vice-Ministers' Meeting.

The first outline of the pension system was drawn up by the Committee and sent to the Vice-Ministers' Meeting on 18 May, 1973. The Vice-Ministers' Meeting was held with only those Vice-Ministers and other people who were concerned with the pension programme under consideration.³³ The meeting was presided over by the Deputy Prime Minister and Minister of EPB.

At this Vice-Ministers' Meeting, the participants could not agree on anything more than that what had been already agreed upon by the Working Committee.³⁴ The Vice-Minister of the Office of Government Administration mentioned that five percent of the contribution rate from the beginning of a enforcement would impose a heavy burden on both citizen and companies,

³² Interview with Jae-Sung Min.

³³ The participants were: So-Yong Chung(Chief Economic Secretary for the President); Jae-Woo Lee(Vice-Minister of the EPB); Ok-Kyu Cho(Vice Minister of the Finance); Jong-Kwan Hong(Vice-Minister of the MOHSA); Mahn-Jae Kim(President of the KDI); Hee-Chang Kim(Director of the Office of Labour Affairs); and Jong-Taek Chung(Political Secretary for the President).

³⁴ The following subjects for debate are quoted from the Bureau of Welfare Pension(1974), *Ibid.*, p. 31.

so that it would be desirable to start with a low rate of contribution in the early stage, and then increase the contribution rate step-by-step. The Vice-Minister of EPB said that in matters connected with contribution rate, it would be desirable to start with a low rate to pay due regard to foreign countries' systems because subscribers would accept it as an additional burden. The President of the KDI, on the other hand, maintained that once it was institutionalised, it would be very difficult to increase the rate of contribution. Therefore, even if it was too burdensome for subscribers, it would be desirable to keep up five percent. The Vice-Minister of the MOHSA asserted that the general principle of social insurance expenditure is a tripartite allotment, i.e., government general revenues, and contributions from the insured persons and their employers. In the case of many foreign countries, government expenses bear a sizable sum of pension expenditure. Therefore, the government must subsidize at least the administration cost. The Chief Economic Secretary for the President suggested that they defer their decision for a while and that they send some working-level people to foreign countries to learn more about their systems. The Deputy Prime Minister and Minister of EPB closed the meeting by instructing that:³⁵

" the pension system must be effective in 1974. Working-level people should be sent to those foreign countries that are similar to Korea in many ways such as Japan and other countries in Southeast Asia, and they would observe and study those countries' systems and choose the most adaptable system to Korea. On the other hand, this first outline should be finalized after hearing opinions from people who have professional knowledge, and , if possible, representatives of the employed and employers, and other from society".

³⁵ *Ibid.*, p. 31.

5.2.3. An Observation Trip and the Hearings.³⁶

A. An Observation Trip Abroad of the Study Groups.

According to the instruction of the Deputy Prime Minister and Minister of EPB, two groups were formed on 30 May, 1973 and went on a trip abroad until 20 June, 1973. One group which was composed of two people from the Social Affairs Bureau of the MOHSA, one research fellow from the Social Security Committee, one person from the Budget Bureau of the EPB, one from the Security Insurance of the Ministry of Finance, went to Japan mainly in order to learn the actual operation of the Social Security system there. They visited the Ministry of Welfare, Ministry of Social Security, the university of social security, a county pension section, insurance section, and the Social Security Committee, and studied the Japanese experiences of the Welfare Pension Insurance and National Pension Programmes.

The other group which was composed of the Director-General of the Social Affairs Bureau of the MOHSA, and two people from the Economic Coordination Bureau of the EPB went to the Southeast Asia area mainly in order to observe policy aspects of social security systems in several countries. They visited the Republic of China, the Philippines, and the Asia Area Office of the International Labour Office in Bangkok, Thailand, and later joined the group in Japan.

B. The Hearings.

As soon as the study groups returned from abroad, the Working Committee held several hearings from 21 June, 1973 to 30 June, 1973, as decided at the Vice-Ministers' Conference.³⁷ Most of the hearings were held for about two hours each. In the hearings, participants raised many questions. All these questions are substantially the same as that of the public criticisms just after the announcement of the draft bill. Therefore, we will examine all these

³⁶ The following details rely heavily on the Bureau of Welfare Pension(1974), Footstep of the National Welfare Pension, The MOHSA, Unpublished internal draft, pp. 32-39. In Korean.

³⁷ Hearings for the Academic Circle(21 June); The Press(21 June); The Representative of the Employers(22 June); The Representative of the Employees(22 June); The Economy-Science Council(29 June); and The Social Security Committee(30 June).

issues in the following section. Instead, here we will raise the most controversial questions in argument and then examine the government's responses. In most of the hearings, there was serious controversy on these subjects:

(1). The motivation and direction of the pension programme: Whether or not it was intended to mobilize domestic savings ?

(2). The coverage: A protective device for the temporary employees who were hired for less than three months and who were disqualified from the NWP scheme; and the raising of the lower limit with the employers paying the contribution fee for the employee.

(3). The financing: Whether the government would subsidise to the pension funds or not ?

(4). The benefits: A protective device for the pension benefits in time of the changing wages, prices, or other economic variables; and benefits levels.

(5). The organization: Who would take charge of the management of the pension scheme, the MOHSA or the EPB ?

(6). In relation to the other social security systems, especially, with the Retirement Allowance system.

As a whole, most participants expressed negative feelings about the prospect of the programme being designed for economic purposes rather than for the purpose of the social welfare of citizens.

In responses to these issues, the Economic Coordinator of the EPB answered that funds would be raised when the system was in operation, and the purpose of the pension programme was social welfare, by which he implicitly meant the overall enhancement of living standards by economic development through heavy and chemical industries in this case which would be made possible by the pension fund.³⁸ He also said that the participants should understand that the EPB took charge of the programme, because (1) it had a large effect on the national economy and (2) the EPB was in a position to coordinate between the other Ministries in the government.³⁹ On the other hand, in the hearing for the Social Security Committee, the General-Director of the Social Affairs Bureau of the MOHSA

³⁸ Working Committee(1973), Hearing Record for the Press, on 22 June, 1973.

³⁹ Working Committee(1973), Hearing Record for the Representatives of the Employer and Employee, on 22 June, 1973.

replied that: "it would have been a matter of course that the MOHSA should have taken the leading role, since it has to with the matter of social security. The reason why the EPB participated was in order to be careful about the economic aspects of the programme, and the EPB took the role of coordination because when President Park received the working plans from the KDI as well as from the MOHSA, he instructed that the pension system should be established by coordinating the two working plans."⁴⁰

5.2.4. Report to the Joint Policy Committee Meeting of the Democratic Republican Party and You Chung Hoe.⁴¹

As we mentioned in Chapter One, the political parties in Korea are less instruments of interest aggregation than of policy dissemination and propagation, as well as deliberation and legitimation. In order to tighten cooperation between the government and ruling party with respect to these latter functions, various formal mechanisms such as the government and ruling DRP joint meeting are maintained between them. All conflicts of political opinions are adjusted formally through these means.

The first outline of the pension plan was reported to the Joint Policy Committee Meeting of the Democratic Republican Party and You-Chung Hoe on 9 July, 1973. Ten members of both parties were present with the Minister of Health and Social Affairs, Vice-Minister of the MOHSA, Vice-Minister of the Planning and Coordinator of the EPB, the Economic Coordinator of the EPB, and the Director-General of the Social Affairs Bureau of the MOHSA. Although the participants were not against the NWP programme itself, they raised several questions in arguments. However, most of their suggestions were already presented in the hearings. For example, Jae-Phil Ko, National Assemblyman, proposed that, to consider Korea's actual circumstances, the government should invest in the public assistance programmes to relieve the poor instead of the employees, and Hee-Sup Chung, National Assemblyman, mentioned that the NWP

⁴⁰ The MOHSA(1973), Minutes of the Meeting on the Basic Outline of the NWP Programme, 4 July, 1973.

⁴¹ Working Committee, Report on the Joint Policy Committee Meeting of the DRP and Youchung Hoe, On 9 July, 1973.

programme should be run parallel with the National Health Insurance. In relation to the finance, vice-chairman of the policy committee of the DRP, Mahn-Sup Lee, claimed that the employees' level of contribution exemption of pension should be raised as much as the level of inhabitants' tax exemption(8,000 won). In addition, he expressed the concern that the term "to secure domestic capital necessary for economic development" as the basic direction of the pension system could arouse unnecessary misunderstanding. Finally, one participant, Myong-Gun Park, said that it would be better if the planning process was open up to public for discussion without excessive security precautions.

With regard to these issues, the government's immediate responses were not known to the general public. When we examine the final draft bill, these suggestions were not much effect on the NWP policy-making. In this fashion, however, the party functions as an additional conduit through which the NWP policy was disseminated to a wider elite, and, through media coverage, popular audience.

5.3. The Draft Bill.

5.3.1. The Announcement of the Draft Bill.

Having taken into consideration the comments and suggestions made by the participants at the various hearings and meetings, the Second Outline was prepared by the Working Committee at the Vice-Ministers' Conference and presented to the Economic Ministers' Conference on 30 July, 1973. However, the contents of the second outline did not much reflect the results of the trips and hearings. One of the main reasons was that the government planners held the hearings simply to get some frame of reference for their decision at the Vice-Ministers' level from the people who had so-called professional knowledge about social security or who were to be affected by the pension programme. They were not interested in arguing the purpose and intention of the pension programme.⁴² In other words, in Korean politics, interest groups had been treated by the government as mobilizers of

⁴² Nam-Jin Jun(1980), *Ibid.*, p. 121.

public support for already-determined government policy, not as agents representing the interests of their groups.

The establishment of the National Welfare Pension programme was introduced first to the general public by the Deputy Minister and Minister of Economic Planning Board on 20th of September, 1973. Meanwhile, the background and content of the NWP programme was explained by the Minister of Health and Social Affairs, Hyong-Ho, Lee(see, Appendix 2). No sooner was the programme introduced and explained to the general public than the Working Committee was dismissed. The Office of Planning and Coordination which was subordinate to the Office of Prime Minister took charge of the program.

5.3.2. The Response of the Public.

In response to the programme, there was an outburst of criticism from the general public. Public opinion was reflected primarily through the newspapers.⁴³ Newspapers discussed the pension scheme in the editorial articles. Considering the Korean media had undergone an unprecedented trial over the issue of the freedom of press since the military coup in 1961, more seriously since the Yushin Reform in 1972, the newspapers' criticism was a surprising event. The main issues were as follows:

(1). In relation to the purpose: a). The government should explain the purpose of the NWP programme--whether this scheme was for the domestic saving or not(Hankook Ilbo); b). The NWP programme just emphasized the mobilizing domestic savings(Jungang); c). The Unemployment pension and the Disability pension were much more efficient than the Old Age pension in relation to the national goal, that is, the establishment of a state on the basis of industries(Chosun).

(2). In relation to the coverage: a). The age 18 for the qualification should be raised(Dong-A); b). The age of under 18 for the qualification of the

⁴³ Dong-A Il Bo(22 Sept., 26 Sept.), Cho Sun Il Bo(22 Sept.), Seoul Shin Mon(21 Sept.), Joong Ang Il Bo(21 Sept.), Han Kuk Il Bo(21 Sept.), Kyong Hwang Shin Mon(21 Sept.). For full details, see the interest groups activities in the following section.

Survivor Pension should be changed(Jungang); c). The lower limit for the qualification should be raised to the level of income tax exemption(Ibid); d). Women should be exempted because most of Korean women ceased work just after their marriage.

(3). In relation to the financing: a). The NWP programme should be a tripartite contribution. The government contribution would not impose additional financial difficulties, because the reserve funds would be invested as treasury loans and investments to the heavy and chemical industries(Dong-A & Kyonghyang); b). The contribution for the NWP gave the impression to the general public of a pseudo-tax(Kyonghyang); c). The NWP system left government contribution out of consideration in comparison with the Civil Servants Pension scheme and the Military Personnel Pension scheme(Hankook); d). The government should consider supplementary measures for the early retirees and the temporarily unemployed(Dong-A); e). The contribution rate was too high(Ibid).

(4). In relation to the benefits: a). The benefits should be based on the real living expenses and the sliding system(Hankook); b). The pension benefits should be paid right after the pensioners' retirement. The age of 60 for the benefits allowance was inconsistent with the actual(Jungang & Chosun); c). The amount of benefits were much lower than that of a deposit in the commercial banks as a fixed credit(Chosun); d). The NWP system was unfavourable to the low income class(Ibid); e). The scope of the benefits did not cover the short-term contingencies such as sickness and unemployment(Ibid); f). The women who stopped working before the age of 55 should be paid right after the pensioner's retirement(Dong-A); g). The NWP system did not give the pensioners the opportunity to choose their benefits in comparison with the Civil Servants Pension scheme(Kyonghyang).

(5). Others: a). The contribution rate and benefit of the NWP should be the same as that of the Civil Servants Pension(Jungang); b). The government should consider supplementary measures for the early retirees and the temporary unemployed(Dong-A).

In the mean time, the Chosun Ilbo gave the opportunity to the policy makers to explain the government's policy on 29th of September, 1973. Dr. Chong-Kee Park was on the defensive and made the government's position clear. He stated that: (1). The ultimate purpose of the NWP programme was to secure of workers' life, so that the others were only accompanying effects; (2). The principle of the NWP was based on social insurance, hence the lump-sum payments was against the fundamental principle; (3). The NWP would not obtain excellent results in a short time. Therefore, the NWP should be amended and supplemented step-by-step over a long period of time;(4). The introduction of Unemployment Insurance was impossible of attainment in view of the realities of the Korean situation, because Korea did not have well-developed labour exchanges and labour markets. Instead of Unemployment Insurance, the government would introduce Medical Insurance as soon as possible; (5). The Weighted Benefit Formula was applied as a method of assessment for the NWP benefits, so that the low income worker would have much more benefits(maximum 70%) than that of the high income worker(minimum 24.3%); (6). The government contribution would come back to a burden of tax payers, especially the employers.

5.3.3. The Government's Counter Measures.

The Office of Planning and Coordination analyzed public opinions and concluded that the following were the reasons and causes of the negative opinions.⁴⁴

(1). The problem of the purpose of the programme: The general public regarded the purpose of the programme as a means of mobilizing domestic capital. This was because the EPB took charge of the process of planning the system in spite of the fact that social security was under the jurisdiction of the MOHSA.

(2). The problem of the organizational structure: The involvement of the Office of National Tax Administration created a negative impression on the general public.

(3). The problem of the rate of contribution: The rate of the contribution fee was considered rather burdensome to both the employers and the employees.

⁴⁴ MOHSA, Bureau of Welfare Pension(1974), "Footstep of the.....", pp.79-80.

(4). The problem of press reporting: The reporting of the press resulted in negative reactions from the general public. The reporting was suspected because the press themselves were employers so that they were to be affected by the new pension system in their business. This suspicion was in spite of impartial reporting.

(5). Problem with other pension programmes: The general public confused the NWP with the Civil Servants Pension and Military Personnel Pension programmes which were in effect pension plus retirement allowance systems.

The Office of Planning and Coordination attributed the negative public opinions to the fact that the real reasons for the programme were not revealed initially in a positive way and they felt that the content of the programme should be made known more widely and publicly. They suggested that the Prime Minister should see to the latter.

A. The Public Relations Task Committee.

The Prime Minister, therefore, instructed on 28 September, 1973, that a public relations Task Committee for the NWP programme be established. The Prime Minister also instructed the Office of Planning and Coordination to readjust the contents of the basic outline in spite of the elucidation of a policy of non-modification of the basic outline by the Minister of Health and Social Affairs one day earlier. The Public Relations Task Committee consisted of Vice-Ministers of the EPB, MOHSA, Culture and Public Information, and President of the KDI.

The Committee held four meetings and drew up the activities as follows:⁴⁵

- (1). Contribution of special commentaries to major newspapers.
- (2). Round-table talks and spot announcements on radio and T.V.
- (3). Printed Materials:
 - 1). 20,000 copies of public relations material titled " Road to the Welfare Society".
 - 2). 300,000 copies of explanatory material entitled " To Make Tomorrow Happy".
 - 3). 200,000 copies of three catchwords, and

⁴⁵ Ibid. p. 80.

4). 200,000 copies of poster.

The Committee also held meetings with the representatives of the Federation of Korean Industries and the Federation of Labour Unions on 8 October, 1973, and with the presidents of the universities and influential people in the press on 31 October, 1973.

B. The Results of the Reassessment.

In response to the Prime Minister, the Office of Planning and Coordination arranged a meeting with the Ministers of EPB, MOHSA, the Second Minister without Portfolio, and the president of the KDI. They analysed public opinions and revised the basic outline beginning on 1 October, 1973. The details of readjustment were as follows:

(1). The rate of contribution which the employees had to pay was lowered by one percent from 4 percent to 3 percent as a result of a request made by ruling party on 5th of October, 1973.

(2). A lump-sum refund for women who stopped working before the age of 55 may be paid one year after stopping working. If the subscriber does not apply lump-sum refund, the basic annual pension would be paid as planned in the basic outline.

(3). The qualification period for Disability and Survivor Pensions was lowered from 3 years of contribution to one year. The survivor pension was raised from 30 percent of the basic annual pension to 50 percent for disabled or dependent children.

(4). The upper limit of the average standard monthly compensation was raised from 150,000 won to 200,000 won in order to include higher income level.

(5). The lower limit was raised from 7,000 won to 15,000 won and those between 7,000 won and 15,000 won per month were made voluntary subscribers, instead of the employers paying the contribution fee for those earning under 7,000 won which was originally proposed.

(6). The rate of tax exemption of pension was raised from 50 percent to 100 percent.

However, they could not accept of some requests offered by the general public, for the following reasons:

Suggestions rejected	Reasons
The government should contribute donation or pension at a fixed rate.	<ol style="list-style-type: none"> 1. It will increase tax burden. 2. The dependent people were not taken care of by the government so that the government could not subsidize the income-earning people first. 3. The financial burden to the government would be grave as the pensions are increased in the future.
The Medical Insurance and Unemployment Insurance should be put into operation before the NWP programme.	<ol style="list-style-type: none"> 1. The Medical Insurance requires a great deal of finance. 2. The Unemployment Insurance could not be put into operation because of the inadequacy of conditions such as labour market and employment rate.
There should be a choice between lump-sum refund upon retirement or the pension.	<ol style="list-style-type: none"> 1. The idea is in contrast to the purpose of the NWP programme. 2. A lump-sum refund does not secure retirees' living. 3. There is Retirement Allowance system regulated by the Labour Standard Law.
The ages between retirement and eligibility for pensions should be the same.	<ol style="list-style-type: none"> 1. It is against the purpose of old age security. 2. The period of paying out pensions will be lengthened. 3. The retirement age would be raised in the future.
The age of qualification should be raised from 18 to 20.	<ol style="list-style-type: none"> 1. The age of eighteen is the legal age for labour. 2. Earlier subscription is beneficial to the subscriber.

The burden on business should be relieved.	1. The 4% of donation did not hinder on the production cost. ⁴⁶ 2. Even if there is a little burden, the business activity would be thriving by the enhancement of labour production as a result of the pension programme.
Measures to maintain value of the currency should be discussed.	1. The benefits will be decided by average incomes. 2. The benefits will be readjusted by price fluctuation(sliding system).
Representatives of the employers and employees should participate in the management of the pension system and fund.	1. The deliberation committee. 2. The Trust Fund Management Committee.

5.3.4. The Final Draft Bill.

The working plan of the programme with only minor revisions which reflected part of public opinion was laid again before the Economic Ministers' Conference on 15 October, 1973, and approved by the Conference. The prospect of the reserve fund and the organizational structure, however, remained intact.

The working plan was reported to the Prime Minister, and President Park afterwards on 30 October, 1973. The President took account of public opinion on the low-income class people. Therefore, he directed that the level of contribution fee exemption status should be raised from 7,500 won to

⁴⁶ According to one estimation, the possible burden of imposing the contribution to employers would not be so serious for most employers who would be subject to participate in the pension programme at a initial stage. If 5 % wage bill is charged the contribution of the employers to the programme, their contribution would effect only less than 1 % of net sales or manufacturing costs for four-fifths of the industries. If only 3 % of employers' wage bill is charged as the contribution the net effect would be less than 0.6 % of net sales or manufacturing costs. However, the contribution for pension programme would directly be affected to the operations of the institutions because the proportion of wage and salary payments to total operating expenses has been very high in compared to the one for manufacturing and mining industries. See, Seung-Yun Lee et.al.,(1971), *Ibid.*, pp. 55-57.

8,000 won and those earning between 8,000 won and 15,000 won per month should pay only 2% of the average standard contribution fee.

The National Welfare Pension Bill and the National Welfare Pension Special Accounting Bill were submitted to the Cabinet Council on 7th of November, 1973 which passed them unanimously and sent them to the National Assembly on 17 November, 1973. When the NWP bill was passed by the Cabinet Council, the then current opinion, by and large, reported with good intentions⁴⁷ because public opinion was reflected in the bill.

The opposition party, on the other hand, opposed the NWP bill because the NWP programme gave an impression as a means of mobilizing domestic capital for heavy and chemical industries rather than for the purpose of social welfare of the working people. The opposition party declared that the bill would be defeated during the deliberation in the National Assembly.

5.4. Deliberation of the National Assembly.

The Health and Social Affairs Committee of the National Assembly began to discuss the bill on 20 November, 1973. The bill was passed with minor revisions on 27 November, 1973. The Assembly plenary session passed the bill on 1 December, 1973.

5.4.1. Deliberation of the Health and Social Affairs Committee.

The NWP bill and the NWP Special Accounting bill were submitted to the 88th National Assembly and the bills were presented to the Health and Social Affairs Standing Committee on 20th of November, 1973. The NWP bill was discussed during 21-27, November, 1973(7 days). The Committee members had five sessions of discussion.

In the opening session, the Committee received the proposed explanation from the Minister of Health and Social Affairs on 21st of November, 1973.

⁴⁷ Kyonghyang Shin Mon(8 Nov.), Dong-A Il Bo(9 Nov.), Seoul Kyong Jae(9 Nov.), Shin-A Il Bo(8 Nov.), Joung-Ang Il Bo(8 Nov.), Han Kuk Il Bo(9 Nov.).

The Committee members received a report of the preliminary screening from the legislative researcher the following day. In the second session, the Committee received a petition from the press to be exempted from the NWP coverage because the press was preparing its own pension scheme. The legislative researcher, however, recommended turning down the petition because the scheme contained no mention of the Disability pension and the Survivor pension even though it was nearly the same as the Old Age pension programme. The chairman of the Committee, Jae-Phil, Ko, emphasized in his concluding remarks that:⁴⁸

“ To pass a draft budget for the coming year within the legal deadline, the Committee is restricted by time. Furthermore, the negotiations between the ruling party and the opposition party agreed to finish the Committee’s discussion tomorrow. The details shall be discussed by the composed subcommittee. For consideration of this scheme, we will hold a hearing tomorrow”.

In accordance with the National Assembly Law, the Committee invited 18 persons including the academic fields, press, employer, and employee to hold a hearing on the evening of 23rd of November, 1973. The chairman of the committee said in his opening remarks:⁴⁹

“ I am sorry that we are holding a hearing instead of a public open hearing as prescribed in the National Assembly Law this evening, because we do not have enough time for it..... This hearing is scheduled for four hours but we have only three hours by setting aside one hour for dinner. Therefore, you people would want to speak about only six items that we had already asked you to in advance when we contacted you for invitation. These are (1) the rates of contribution fee and pensions, (2) the question of government financing, (3) the problem with the low-income class, (4) the organizational structure, (5) the relationship between the NWP programme and the Medical Insurance and the unemployment systems, and (6) the question of the balance between the NWP programme and the Civil Servants and Military Personnel Insurance”.

⁴⁸ National Assembly, Record on the Health and Social Affairs Committee(88th). See nos10. p.10-11.

⁴⁹ National Assembly, Committee on Health and Social Affairs, Hearing Record on the National Welfare Pension Bill, on 23 November, 1973.

In the third session, only one Assemblyman, Myong-kee, Chun, put several questions to the Minister of Health and Social Affairs on 24th of November. In the beginning, he mentioned that the opposition party was opposed to the pension scheme in principle because it was designed for the mobilization of domestic capital for heavy and chemical industries. He added that he was in favour of this scheme personally, however. Like other assemblymen, his main concern was the problem of government financing. The Minister of Health and Social Affairs replied to his question that the government was willing to subsidize 1 percent for those whose income bracket was in between more than 8,000 won per month and less than 15,000 won per month. The chairman recommended that it would be better if they heard answers from the related Cabinet members later, who were not present, for more confident answers. Therefore, the Minister of EPB and the Minister of Finance would be requested to attend the next session.⁵⁰

In conclusion, the chairman mentioned that the Committee's discussion was limited in terms of time and other circumstances, because the Special Committee on Account and Budget was examining the budget for the coming year and the pension fund was already in the budget for the coming year as income. So they had to pass the law first so that the Special Committee would pass their budget.

In the 4th and 5th sessions during 26-27 November, too, many committee members wanted the government to subsidize a part of the contribution fee for those whose income bracket was less than 15,000 won per month. The two minority conferees, Kun-Soo, Kim and Myong-Kee, Chun, asked for 2 percent out of 3 percent that they were supported to pay. The majority conferees, on the other hand, supported the government's offer of one percent. This matter and others came to a vote. The minority had 2 favour votes out of 9, and the majority had 7 votes for their proposal. Therefore, the Committee decided that the government should subsidize 1 percent out of 3 percent which those under 15,000 won per month were supposed to pay.⁵¹

⁵⁰ However, the answer never came in subsequent meetings.

⁵¹ *Ibid.* See. no 16. PP.324-331.

All parties and the representatives from the executive branch agreed to revise the following subordinate topics which had been deliberated upon.⁵²

First, the proposed plan by the executive branch for the role of the government in terms of finance was that the government will provide administrative cost only. However, the Committee agreed to insert a clause "the government will contribute to the fund " because it will have to finance the fund when it go into the red anyway in about 40 years and to make sure that the government pays the pensions in the future even if it goes into red.

Secondly, the proposal stated that those who are eligible for Disability or Survivor pensions have to choose either the pensions or any other compensations for which they might be eligible provided by other laws. The Committee agreed not to relate the pensions to other compensation, because all the compensations are not really sufficient in amount.

Thirdly, the Committee struck out the clause that the Old Age pensions could be withheld in cause that the subscriber owes tax to the government. The reason was that the pension was intended to secure supplement the minimum standard of living in old age, disability, and death.

Finally, the period of time that the claimant could appeal for a decision was extended from 2 months to 3 months.

5.4.2. The Assembly Plenary Session.

The bill was brought up for discussion in the Assembly Plenary Session on 1st of December, 1973. There were two members to speak about the programme, one each from the ruling party and the opposition party. After two assemblymen, Sam-Bong, Kim and Soo-Whan, Kim, spoke for and against, the bill came to a vote by a standing vote. Out of 145 present, 102 votes were in favour of the bill and 34 were against and these came from the opposition party. After having passed the National Welfare Pension Bill, another bill, the National Investment Fund Bill was also passed, which was basically designed to accommodate the use of the reserve fund from the pension programme and this deliberated upon by the Finance Committee of the National Assembly⁵³.

⁵² *Ibid.*, See. 9-15 on the National Welfare Pension Bill deliberation.

⁵³ *Ibid.*, p.13.

The National Welfare Pension Bill was signed into law by the President on 4th of January, 1974, and become effective on the same day as had been scheduled a year before.

5.4.3. Conclusion.

As we have seen above, the final form of the NWP Law was very slightly revised as a result of politics among government officials, political parties, representatives of various groups and individuals. However, there were a clear limitation as to how much the bargaining could be accomplished. The government had already made its final choice in terms of original purpose of the pension programme. The government was willing to yield concession only where it would not hurt the essence of the intentions. Even though the opposition party acknowledged publicly that they were opposed to the programme, the minority members did not have the strength to prevail against the ruling party.

5.5. The Role of Interest Groups.

There is a tendency to consider interest-group influence in policy as a peculiarly modern phenomenon. A historical study of old-age pensions makes clear that, although there may currently be a more formal institutionalization of interest organisations(as there is also in parties and government departments), the existence of consultation, bargaining, and accumulation with the 'nonpolitical' interests has been of persisting importance throughout the development of social policy. However, as we examined in previous chapters, interest groups in Korea were of no importance in the political process because the political and socio-economic environments in the 1970's were unfavourable to Korean interest groups. Ostensibly, the regime advocated democratic and pluralistic interaction between the state and the society, allowing, in theory, the existence of the institutions through which various social segments could represent and articulate their distinct interests. In practice, however, the relative freedom of action of social groups, especially that of politically important social groups,

was often limited. As we have seen it, one major reason for this was that the regime was often concerned with its vulnerability in the face of a potential increase in the political power of interest groups that could possibly be mobilized by the political opposition in its efforts to challenge the power base of the regime. The political elite, furthermore, has claimed that interest groups were bumbler, opportunists, and more a thorn than an aid to the elite in modernizing the society, and hence unworthy to share policy making.⁵⁴ Therefore, rather than allowing the free play of group politics in political processes, organizations of major private institutions were frequently penetrated; the behavioural patterns of each social group reflect to a large extent the "behavioural guidelines" defined by the top; and hence the relative freedom of action of these groups was greatly restricted. Finally, one characteristics of the Korean interest group activities was that the bureaucracy was the main focal point of the interest group activity, rather than the legislature or political parties.

Even though the NWP programme might have a great deal of effect on their distinct interests, interest groups played virtually no role in the initial process of, to borrow Barrington Moore's expression, "revolution from above."⁵⁵ However, we will identify how the discussion on the NWP system was carried out by analyzing the discussion process activities with the emphasis on the interest group's activities. Among the interest groups, we will select four groups which are relevant to the NWP policy-making process. They are the general public, the FKTU, the FKI, and the media.

5.5.1. The General Public.

As for the NWP program, most common people were indifferent to the plan for the following reasons.

First, the term social security was still almost totally unfamiliar to average Koreans in both theory and practice. The sort of social security programmes as understood in the West were nonexistent in Korea. In a strict sense, social security programmes in terms of protecting the welfare of people, had,

⁵⁴ Norman Jacobs(1985), *Ibid.*, p. 63.

⁵⁵ Barrington Moore, Jr(1967), Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World, Beacon Press, Boston.

therefore, no place in this country. Only a limited number of people falling under special categories were subject to pensions and other support from the government.

Secondly, historically, Koreans have a trend of mutual distrust of insurance. They knew by experience that such a long-term insurance did not keep up with value of currency. Inflationary expectation has been embedded in the attitudes of all citizens.

Last and most importantly, the participation of the whole population in the process was prohibited and social consciousness was not developed. They were, indeed, too overawed by the authority to express their views.

However, the leaders of public opinion, whether they were citizens' delegators or not, were citizen's delegators or not, were concerned about the NWP scheme. They took every opportunity to make their opinions known to the government.⁵⁶

5.5.2. The Federation of Korean Trade Unions(FKTU).

As we mentioned before, the Korean Labour Unions had traditionally been subordinate to the authority. This situation grew worse since the Yushin Reforms in 1972. Right after the Yushin Reform, the FKTU submitted the "proposals on the Labour Unions' Constitutional Improvement on the basis of the Yushin and on the Policy Direction," reaffirmed that it would, among other actions, make itself ready to "actively and collectively cooperate with the government policy as a strong cell unit of the leading force of the nation."⁵⁷ In this context, the arena for policy formation in the NWP programme was restricted only by the limited functions performed by the FKTU.

Most of the FKTU opinions were reflected primarily through the official statements and the participation in the hearings. When the study groups returned from abroad, the Working Committee held several hearings. At this time, as we mentioned before, four union members were invited to the

⁵⁶ See. Chapter five in this thesis, pp.57-58.

⁵⁷ Sang-Woo Lee(1986), The 18 Years of the Park Regime. Seoul, Korea: The Dong-A Ilbo Sa. p. 365.

hearing and made seven items of comprehensive recommendations to the government.

The FKTU, again advised government to remember that the premise of the NWP programme was income redistribution on 26th of June, 1973.

The recommendations were: (1). The contribution rate should be five percent for the employer and three percent for the employee; (2). The government should subsidize the contribution fee for the under living-wage subscribers and the administrative expenditures; (3). The contribution fees and benefits should be exempted from taxation; (4). The benefits should be readjusted by a sliding system to keep real benefits; (5). The average monthly income for the benefit rates should be calculated by the last year's average income at the time a given worker's retires; (6). The existing rate of the Retirement Allowance should not be adjusted downward; (7). The Special Committee for Pension Fund Operation should be established and the fund should be maintained as a special account.

In the mean time, the relationship between the NWP programme and the Retirement Allowance scheme was becoming a hot issue in the then current opinion. Some companies, on the one hand, intended to adjust downward the rate of Retirement Allowance, whilst, on the other hand, especially government-owned enterprises, demanded collective-bargaining rearrangements to eliminate progressive rates. The Federation of Korean Industries, too, held a hearing in connection with this issue on 6th of July, 1973. In this situation, the FKTU had to explain its own views, so it issued a statement on its own opinions on 26th of July, 1973. The contents of the FKTU's statement were as follows: (1). The Supreme Court's precedent, on 30th of December, 1969, verified the retirement allowance which was provided under article 28 of the Labour Standard Law, as a deferred wage; (2). If enterprises refuse payment of vested bond, retirement allowance, or intend to readjust downward of the rate, they just deny the NWP system itself on the same principle; (3). These demands were unjust to infringe on the workers' right of private property; (4). To consider with Korea's low wages and low level of social security system, workers were very difficult to maintain their existence even if the NWP and Retirement Allowance were added up; (5). Most Korean companies specified compulsory retirement age between 45 and 55, and the NWP benefits should be payable to retired workers at age 60. Therefore, the retirement allowance should be very

important for the retirees to rely upon during this age gap years;(6). If the NWP programme had a bad effect upon the existing Retirement Allowance system, the FKTU would oppose the NWP programme.

Finally, when the Chairman of the Health and Social Affairs Committee of the National Assembly, Jae-Pil Koh, held a hearing on the evening of 23rd of November, 1973, the Vice-Chairman of the FKTU, Young-Jae Yoon, made three issues of the FKTU's opinion clear that: First, the lower limits of the average standard monthly contribution should be fix minimum wages; Secondly, the rate of contribution when income was less than 15,000 won should be lowered, and than, government or enterprise would raise their contribution rate as a substitute;Finally, the employers' contribution should not have a bad effect upon the wage increase.

5.5.3. The Federation of Korean Industries(FKI).

Like the FKTU, the FKI was established by government order and with support, and operated dependently of the government. As soon as the Yushin Reforms were launched along with the Heavy and Chemical industries in 1973, the FKI declared that the forthcoming organizational activities would be instrumental in promoting the new heavy and chemical project, together with the "Yushin tasks" enunciated by the president.⁵⁸

Even though interest groups had been treated as mobilizers of public support for already-determined government policies, the FKI had a slightly different position in relation to the Korean national goal, namely, economic development. In Korean politics, as we mentioned already, the government and the FKI had the same policies. Therefore, if not given resultant dependence of business corporations on the government, for example, it was unlikely that the FKI had enough political power to oppose the will of the government. In this context, the FKI exercised its influence over the NWP policy making process.

As for the NWP programme, the FKI opinions were reflected primarily through hearings.

⁵⁸ See the Federation of Korean Industries, The Twenty-Year History of the FKI, Seoul, Korea, pp. 462. 464.

Firstly, as we have explained already, the FKI participated in the Working Committee's hearing and made five proposals.

Secondly, the FKI invited several experts, including the academics and industrialists, to hold a hearing on 6th of July, 1973. At that time, the FKI made four recommendations to the government. These recommendations were: (1). Before the NWP programme, unreliable parts of the Retirement Allowance system and the Industrial Accident Compensation Law should be amended, and then the Medical Insurance should be put into operation; (2). The FKI were not hostile to the introduction of the NWP programme itself. However, the FKI doubted very much whether the NWP was designed for the mobilization of domestic capital; (3). The Retirement Allowance system should be amended to relieve the employers' financial burden and to assert the employees' right with a contribution; (4). So far, this rule that the retirement allowance fund should be reserved within the company holds good for company saving and employment.

In addition, the FKI and thirty-one allied organizations made a recommendation to the government on 24th of September, 1973 about social security policy in general, and the NWP programme.⁵⁹ In the beginning, these groups mentioned that they were not hostile to the purpose of the NWP programme, but they disclosed their intention to look at the social security policy from a long-term point of view. Their recommendations were: (1). The purpose of NWP should be for the enhancement of social security, not for the domestic saving scheme; (2). Before the NWP scheme, the government should consider how to execute various welfare schemes under the Labour Standard Law, and how to improve the Medical Insurance Scheme; (3). The contribution rate should start with a low rate of contribution in the early stage (2% was recommended), and then, increase the contribution rate step-by-step; (4). The contribution and policy making institution should be a tripartite principle; (5). The lower limit of qualification should be raised to the level of income tax exemption; (6). The NWP benefits should be paralleled with that of the Civil Servants Pension scheme and the link between the NWP and the existing social security programmes should be emphasised; (7). The reserved funds should be invested in the heavy and chemical industry and in other industries.

⁵⁹ The Federation of Korean Industries (1973), A Bulletin of the Federation of Korean Industries. Seoul, Korea. pp. 3-6.

5.5.4. The Mass Media.

Many papers deal with media-governmental agenda relations. The relations are discussed in the context of the media's role as an intermediary between the public and governmental agendas. Cobb, Ross, and Ross discuss media-governmental relations from a comparative perspective and suggest three models: the outside initiative model, the mobilization model, and the inside access model.⁶⁰

The outside initiative model sets out issues arising in nongovernmental groups and expanding to reach the public agenda and finally the formal agenda. The media is assumed to have a great role in the issue expansion process from issue initiators to the public agenda and then to the formal agenda. In the mobilization model, issues are initiated inside government, and, consequently, achieve formal agenda status almost automatically. But successful implementation sometimes requires that these issues be placed on a public agenda as well. When the governmental agenda is to be expanded to the public agenda, the media intervene in the issue expansion process from the governmental to the public agenda. The third model is the inside access model in which issues arise within the government and their supporters do not try to expand them to the general public. In this model, the media is assumed not to take any role.

The outside initiative model assumes the impact of the media on the governmental decision-makers, whereas the mobilization model presumes the influence of the governmental agenda on the media's agenda. They assert that "agenda access is expected to vary with patterns of stratification."⁶¹ That is, the social, political and cultural characteristics of the society determine which of the three models predominates. Judging from the Korean situation which we mentioned already, the mobilization model is more valid in explaining the Korean media-governmental relations. As a result, their roles were limited to affect the NWP policy-making as a source of policy ideas and information as well as a source of political pressures, even though the newspapers discussed the NWP programme in an editorial article and held social gatherings on the progress of the policy.

⁶⁰ Roger W. Cobb, Jennie-Keith Ross and Marc Howard Ross(1976), "Agenda Building as a Comparative Political Process," *American Political Science Review*, Vol. 70. pp. 126-138.

⁶¹ *Ibid.*, p. 137.

5.6. Conclusion.

The NWP as enacted embodied several technical inadequacies.

First, according to the NWP Law, only small numbers of people will be covered. They are: firstly, persons earning at least 15,000 won in monthly wages and salaries who are automatically covered, and secondly, persons employed by firms with 30 workers or more who would be initially covered by the system unless specifically excluded by the law.

Secondly, the NWP programme is a mandatory provision for economic contingencies, financed out of contributions on a *quid pro quo* basis. It is financed by extra budgetary funds raised by payroll taxes on covered wages and salaries. Employees are required to pay 3 percent tax on their monthly earnings up to a maximum amount of 200,000 won. Each employer, in turn, pays taxes at the rate of 4 percent on the first 200,000 won paid monthly to each of his employees. The NWP system sets the ceiling on the amount of annual earnings to be taxed and this also serves as a ceiling on the earning base used in the computation of the pension benefits. In other words, payroll taxes are not paid on all earnings from covered work; they are paid on earnings only up to 200,000 won a month. Benefits are likewise based on maximum earnings.

Thirdly, the system is financed solely through contributions by employees and employers, without subsidy from the general revenues of the government except for the 1 percent for those whose income bracket is more than 8,000 won and less than 15,000 won per month and for the administrative expenses of the system. This one percent government subsidy was finally obtained after due deliberation in the National Assembly as a result of strong criticism.

Finally, Even though the NWP programme was the first major breach in the traditional approach to poor relief in Korea, it may reasonably be argued that the appropriate functions of a NWP scheme are very different from those of an insurance scheme; the continued use of the term "National Welfare Pension" can only lead to confusion for the following reasons; firstly, according to the NWP programme, only a small number of people benefited. Only those employed in larger industrial enterprises were normally protected against the risk of industrial injury. Therefore, the programme can not adequately protect ordinary people against the contingencies which

threaten their incomes nor have they replaced the traditional system of care which is being subjected to the strains of social change in Korea; secondly, the NWP scheme would not provide an adequate pension for the significant portion of the population with high risks.

This reflects the dual-purposes of the law: socio-political palliation and economic acceleration. For these purposes, the two agencies, the MOHSA and the KDI/EPB, made proposals. However, these two proposals were different substantially because of the different intentions of the plan. The EPB's plan gave priority to economic acceleration, while the MOHSA's plan laid stress on socio-economic palliation. In this chapter, we have tried to examine how the differences were embodied in the NWP policy-making process. This was because the conflict between these two views was fundamental and continued, progress in one direction must be seen to be counter-balanced by moves in the other. The policy-making process which led to the formation of the NWP scheme tell us little about social security policy-making in general. Nevertheless, it highlights a number of features worth exploring in future studies of policy-making in Korea.

(1). This study demonstrates that the President and his staff were predominant in the policy-making process and that the lively debate among the key bureaucratic actors rarely happened. In fact, as we demonstrated throughout the study, in major decisions, the President's understanding of matters became in and of itself official policies, irrespective of policy recommendations and suggestions that might be coming from various levels in the government. Given these features, the NWP programme was formulated from the President and his staff's policy guidelines, rather than on a welfare ideology or rationality.

(2). Since the President and his staff defined the situation and established the broad policy guidelines, the policy-making arena was open to only a few executive members and technocrats. Two fundamental structures were composed to carry out the President's will.

First, the MOHSA and the EPB/KDI ran the central planning network. However, in the actual policy-making process, the MOHSA set up the NWP policy-making strategy within the control function of the EPB, which was headed by the powerful Deputy Prime Minister and Minister of the EPB maintaining close contacts with the President. It must be noticed that the EPB's policy analysts and bureaucrats, who are responsible for socio-

economic planning, do not have close relationships with client groups, especially with the labour and poor citizens. As a planning board and an idea bank, the EPB and the KDI have played staff roles which do not need support from the public as much as they do from the power elite. On the other hand, the MOHSA which is the major governmental agencies responsible for social policy and programme, are known to have little power in policy planning. As a result, the policy-makers adopted more the KDI's proposal than the MOHSA proposal, even though some items such as the organizational structure, were set on a kind of combination of the two proposals.

Secondly, in the course of the policy-making process, the Blue House was very influential. As we mentioned before, the power structure of the Park regime consisted of two poles; the Blue House and the KCIA on the one side, and the ruling party and National Assembly on the other. The Presidential staff at the Blue House enjoyed unchallenged status under President Park. Major government policies were discussed and finalised in the Blue House where presidential staff members chaired various policy discussions with senior bureaucrats. All the reports of ministers were reviewed by those staff members before they were brought to the President for final approval. During this process, many views and policy perspectives of ministers were revised and supplemented in line with the preferences of the Blue House staff. In the NWP policy-making process, we observed the presidential secretariat frequently intervening and exercising influence over decision-making. For this reason, it was natural that the controversial issues were not settled at the lower levels.

(3). Popular participation is often required as a key factor in welfare policy-making. In this study, however, it seems clear that the government of Korea is the unitary decision maker because there were no outside policy entrepreneurs in the policy-making process. One of the main reason was that Korean politics, whether in its constitutional forms or political processes, tended to increase authority of central and executive institutions, and moved away from pluralistic power systems. Moreover, the importance of independent groups of professionals in affecting the outcome of pension programme was clearly underestimated by policy-makers.

(4). This study demonstrates that, in the Korean political environment, the person who proposed the idea of the pension policy to the President and his staff would have a direct effect on how this policy would be deliberated

upon. Originally, as we mentioned in Chapter Four, the president of the KDI proposed the idea of a social security pension scheme to the President of Korea. At this time, the KDI estimated that the scheme could mobilize about 100 billion won in less than two years. The government, on the other hand, needed urgent measures that could mobilize domestic savings so that it could move ahead with the HC industrialization. The policy-makers' autonomy was further restricted because of this precondition. To mobilise the reserve funds as much as possible, the coverage was restricted to certain categories of workers, the government subsidy was given a limit and the benefit level was fixed low. Only the organisational structure was settled on a kind of combination of the two proposals. Accordingly, the MOHSA would take charge of overall administration and management of the programme by creating the Welfare Pension Bureau, but the Office of National Tax Administration would collect contribution fees. However, this arrangement still left economic planners able to get easy access to the reserve funds for economic purposes, because it would be kept out of reach of the MOHSA who would have liked to invest it in social welfare facilities.

Chapter 6. The Development of Policy, 1974-1985.

The NWP programme, enacted into law on 1st of December, 1973, was originally scheduled to become effective 1st of January, 1974. However, the President's Emergency Decree of 14th of January, 1974 provided temporary tax reductions for low income earners and postponed for a year the implementation of the newly adopted social security programme,¹ and then a year later, the government again decided to delay implementation of the pension system in view of the continuing adverse economic conditions and financial difficulties of wage and salary earners at that time. Since then, several attempts were made to implement this scheme without any major success. It was not until 1988, after the amended law passed in 1986, that a National Pension system was really implemented by the Korean government.

In this chapter, we will examine the development of the pension policy during the period of 1974-1985. We will focus on the postponement of the NWP programme in relation to the Korean national development strategies. As we mentioned previously, policy-making in the NWP programme did not take place as an independent happening, rather directly related to the goals of the other national policies. Therefore, we will find the clues to the postponement by examining the other national policies at the time.

In the first section, we will examine the "missing link"² between policy-making and policy implementation, that is, the reasons why the pension scheme was postponed in 1974, even though its necessity had been affirmed. For this purpose, we will analyze the background of the President's Emergency Decree which was the main reason for the postponement of the NWP programme according to the government's formal announcement, and then examine the actual missing links.

In the second section, we will scrutinize the government's social welfare policy during this period. Even though the NWP programme was still postponed, several welfare programmes were enacted such as the Medical Insurance in 1977, the Welfare Law for the Aged in 1981, and the Welfare Law for the Children in 1982. In this section, however, we will focus on the

¹ Chong-Kee Park(1975), *Social Security in Korea*, *Ibid.*, p.56.

² Erwin C. Hargrove(1975), *The Missing Link: The Study of Implementation of Social Policy*, Washington D, C.,: Urban Institute.

background of the Medical Insurance scheme, and especially, why the need for Medical Insurance captured the Korean government's attention in 1976 instead of the NWP programme.

In the third section, we will explore the development of the NWP scheme during this period of 1974-85. The general question here is: what social, economic, and political environments affected the postponement of the NWP programme for such a long period? We anticipate that these will reveal why the pension plan was postponed for such a long period. During this period, Korea had two republics: the Fourth(1972-1979) and the Fifth(1980-1988) republics.

In the final section, we will analyze the role of interest groups during this period.

6.1. The Postponement of the NWP Programme in 1974.

The NWP programme, as mentioned above, was postponed by the "Special Statement on Economic Emergency Measures for Stabilization of the People's Life" of 14th of January, 1974. Why the NWP programme was destined to be postponed before it could be implemented³--just like the Medical Insurance scheme in 1962, which was postponed until 1977 ? There were several possible reasons, viz, economic recession, oil crisis, inflation, statutory problems, bureaucratic incompetence, and the activity of interest groups which were serious matters of anxiety to the Korean government at that time. However, we will focus on the President's Emergency Decree which was motivated by the oil crisis in 1973, and the industrial restructuring strategy and political strifes which ran through the process of HC policy making.

³ Legally, the NWP program was in operation for 14 days. However, we will reckon the NWP scheme was not implemented because no action was taken during this time.

6.1.1. The Special Statement on Economic Emergency Measures for Stabilization of the People's Life: Emergency Decree No. 3.

A. Background of the Special Measure.

In his statement, President Park mentioned two elements of the special measure.⁴ First, recession coupled with inflation had been intensifying throughout the world, and in addition there has recently been a reduction in the supply of raw materials due to the worsening scarcity and the rising prices of energy, grains, metals and oil products. Secondly, even though the President has been pondering various measures from many different angles for successful national reforms with renewed confidence and courage, some undesirable individuals and elements had, however, resorted to seditious and anti-reform activities to such an extent as to undermine the national security. They failed to understand correctly the circumstances in which the nation stood.

The first factor is quite clear. Korea was seriously affected by the world-wide oil crisis which was triggered by Arab nations' crude oil export embargo against the United States on 17th of October, 1973. Korea's crude oil import prices were raised from \$2.80 per barrel to \$4.26 on an average, that is, about \$200 million more a year.⁵ In order to tide over the oil shock, the government had to take some necessary measure. However, the second factor is quite equivocal. Because we do not know exactly what the President mentioned in a sense, and how it is connected with his economic emergency decree? Therefore, we will examine, in the following section, the concrete meanings in relation to the other controversial issue, i.e., the economic restructuring strategy.

B. The Decision-Making Process.

Under the Yushin constitution, the major characters of policy formation were: a). extreme executive dominance and centralization within society, but

⁴ Hapdong News Agency(1974), Korea Annual 1974, p. 348.

⁵ Hapdong News Agency(1974), Korea Annual 1974, Seoul, Korea. p. 103.

relative decentralisation of the planning function within state bureaucracy; b). 'speed and flexibility' according to the rapidly changing international situation; c). excessive particularism, pragmatism, and favouritism towards big business.⁶ When the check and balances of a multipolar political system are rejected in favour of the tightly focused hierarchical structure already described, there are potential benefits in the speed and coherence of policy-making in a rapidly changing environment. The policy-making process of this measure was a typical example of the above characteristics.

In response to these unpredictable and dramatically changing international situations, the emergency measure was formulated under a stringent time restriction. While the oil price increase was initiated in October, the paramount dimensions of the problem were not apparent for more than a month. In late December, the Blue House economic secretariat began an intensive effort to produce a policy response. Conducted in secrecy, their work was closely guarded, involving only a few technocrats from KDI and selected government bureaucrats. At the ministerial level, it is said that only the Minister of Finance was aware of the project.⁷ One of the important characteristics was that the EPB was excluded from the formation of the Counter Measure Commission(Dae Chaek Wee). Excluding the EPB, which had taken major roles in economic policy-making, the Blue House began to make the principal decisions in this Commission. Though the Office of National Tax Administration and Customs Duties were to be seriously affected by the outcome, these Offices were not deeply involved. This Commission involving a few technocrats worked in a suite of hotel rooms for three weeks, and produced a Presidential Emergency Decree on 14th of January.⁸

Without much influence from business and from state institutions in the policy formulating process and its implementation, the decision was a uniquely sophisticated one, combining a respect for efficiency with a concern for allocating equity. In addition, this measure became the

⁶ Jones and Sakong(1980), *Ibid.*, pp. 58-66.

⁷ *Ibid.*, p. 61.

⁸ On newspaper illustrates that situation in detail. See, Seoul Kyongje Shinmun, 16 January, 1974.

centerpiece of Korea's energy policy.⁹ The main features of the Decree were as follows.¹⁰

(1). To relieve the tax burden of low-income workers: a). Exemptions on a large scale will be accorded in wage earners' income tax, business income tax, and residence tax from January to December, 1974; b). The implementation of the NWP fund and the Private School Teachers' Pension would be postponed for one year.

(2). To minimize the rise in the fares of buses and other means of transportation, transit tax reduction or exemptions would be granted.

(3). To increase the income of farming households and to maintain the rice price at an optimum level, the government purchase price for the grain harvested in 1973 would be raised 500 won per bag. The amounts to be purchased by the government would be greatly increased. The government will pay the increased portion of the price for rice already purchased.

(4). To guarantee employment opportunities for the needy, a fund of 10,000 million won would be secured for emergency employment measures.

(5). The government would support small and medium businesses with a special low-interest fund of 30,000 million won. It would take the necessary budgetary measures for such assistance.

(6). A system would be implemented under which priority would be given to payment of wages. Severe punishment would be applied to employers to prevent them from delaying the payment of wages, dismissing employees unreasonably, and imposing unfavouring working conditions on employees.

(7). The exemption base would be raised in property tax. Levies will be increased on admission to places of luxury entertainment, on jewelry, television sets, refrigerators, liquors, luxurious dwelling and private passenger cars.

(8). Tax rates on gasoline would be raised as part of the effort to save oil.

(9). The implementation of a plan to raise the salary of government employees and to readjust the related pay scale system would be advanced. The plan would be carried out effectively in February.

(10). The government ministries and agencies concerned have been instructed to implement the following in connection with the aforementioned measure: a). To reduce the government budget by 50,000 million won,

⁹ Edward S. Mason, et.al., (1980), The Economic and Social Modernization of the Republic of Korea, Cambridge, M.A.: Harvard University Press, p. 261.

¹⁰ Hapdong News Agency(1974), Ibid, pp. 349-350.

withhold the execution of the curtailed portion, and to maintain a balanced financial structure; b). To maintain stability in the price and supply of rice, barley and coal briquettes so as to solve the basic food and fuel problems of the people; c). To actively support programmes for increasing food production, developing coal and other raw materials within Korea, and to find substitute energy resources; d). To narrow the scope of customs duty exemptions and reductions, and to take other necessary import curbs to reduce imported materials and improve the nation's balance of payments; e). To control bank loans on a selective basis, in such a way as to curb unproductive lending and make more funds available for the private sector for reasonable operation of businesses, as well as the supply of raw materials; f). To manage the interest payment on deposits with flexibility, and take other necessary measures for the protection of depositors; g). To establish and enforce an overall price measure, including curbs on total commodity demands, and the strengthening of necessary administrative action and stringently to control the concerning and hoarding of commodities, illegal price raising, tax evasion, misappropriation of business funds, and other improper commercial activities.

As we have seen from the content of the above, the NWP programme was postponed by this economic emergency measure to relieve the tax burden of low-income workers. At this stage, the question arises of why the newly enacted NWP scheme was included in this economic measure? In other words, what was the intention of policy-makers, especially the President himself and some of his special secretaries in relation to the NWP programme? Even though we gave consideration to the burden of low-income workers and an inflation which would erode the finance of the NWP scheme at this time, the inclusion of the NWP programme was illogical in view of the purpose of the NWP scheme which we mentioned in Chapter Four. Therefore, we will search for other essential reasons why the NWP programme was destined to be postponed. Probably, the second factor of the background of this measure will be suggestive of the ultimate causes. Because the second factor is closely related to the Korean national development strategies, namely, the economic restructuring strategy.

6.1.2. Reorganization of Industrial Structure: HC Industrialization.

As examined in Chapter Four, the problems of recession, international environments, and its negative impacts on the society were perceived to require another round of industrialization via a major reorganisation of the industrial structure. Under these circumstances, the EPB announced two points concerning a new mode of industrialization strategy. First, the EPB emphasized the necessity to build import-substituting HC industries. Secondly, the EPB suggested that the government should opt for a 'civilian-initiated' mode of industrialization, giving more freedom of economic action to the society. The government, among other things, would from then on emphasize growth, stabilization, and social welfare together, rather than single-mindedly focusing on growth alone, as it had in the past. Under these overarching schemes, light industries and HC industries would gradually work hand-in-hand in spurring another round of industrial growth.

The decisions by the EPB, though unnoticed were complicated, Park's "agonies" to manage the crisis situation imposed on his export politics, but would not be sustained for long. Likewise the invigorated influence of the social segments and of the economic bureaucrats in the policy-making arenas would not be sustained.

At this stage, the crucial question is why the economic planners' reform packages were destined to evaporate before they could be implemented. More specifically, in spite of the EPB's pronouncement, only a few months before the unfolding of the "industrial policy revolution" in 1973, that it would gradually promote HC industries as import substitutors and moderate export promoters in some branches of HC industries, why did the state announcement suggest that the government would immediately and massively foster all branches of HC industries as major exporters?

As we shall investigate in this section, behind such alterations, there were inherent dilemmas for the chief executive in following the economic planners' consensus for economic reforms at a time when his export policies were in trouble. For one thing, the EPB's final consensus on the promotion of HC industries was to the effect that it would gradually promote HC industries,

but only where Korea had a comparative advantage in cheap labour. The rationale behind this gradual policy was that a massive approach for HC industrialization in Korea was premature in light of the fact that there existed only a handful of nascent HC industries and that the promotion of HC industries required enormous capital. While making sense economically, however, such a gradual approach would directly conflict with Park's political imperative. In other words, in the wake of the deepening industrial distortion as well as the deep recession, contributing to the upsurge of anti-Park sociopolitical forces, Park was in desperate need of finding a dramatic approach for HC promotion as a solution for each item. Therefore, if Park were to follow the EPB-type of alternative, he had to leave his impending political necessity of rejuvenating the economy largely intact, especially in the short-run.

For another thing, the EPB suggested that the government would opt for a "civilian-initiated" mode of industrialization, giving more freedom of action to the society. However, if this had been the case, Park would have had to face even harder-to-accept problematics.

Firstly, upholding liberal principles for the operation of the economy would have meant that Park had to get the government out of running the economy. Yet, if the government had followed this course, this might have resulted in the wholesale rejection of Park's fundamental belief in the export-first strategy based on state centralization rather than liberal principles. Clearly, Park would have little enthusiasm to do so.

Secondly, and closely related to the first, the liberal principle for economic operations required, at least theoretically, the abnegation or significant reduction of a series of tightly staged export-promotion measures, which hitherto had helped business maximize its export sales. Yet, if the government had to reduce the level of state intervention for export promotion, a highly probable though not entirely certain scenario would be that Korea's export sales would not rapidly increase as they had previously. By the same token, the EPB's suggestion for liberalization would bring an additional difficulty for Park, when considering the labour issue in terms of continued export increases. While the liberalization would certainly be helpful for Park's short-term political interest, greater freedom given to labour by way of the "civilian-initiated" mode also might not guarantee continued export success.

Finally, if these scenarios were to be the reality and, as a consequence, various social groups acquired more freedom and that exports decreased as a result of liberalization, such a condition might well pave the way for Park's political opposition to identify their diatribes against Park's entire political-economic programme and potentially further vitiating Park's already-beleaguered authority to manage the state.

To sum up, for these obvious reasons, Park would not let the EPB solutions materialize. Facing these inherent fissures between the EPB solutions and his political imperatives, Park then opted for the suggestions by a new strategic group, the Oh Group.¹¹ This group, which was directly formed by Park in the wake of the growing necessity for building defense industries, suggested a version of HC industrial promotion different from that of the EPB. Whereas the EPB's scheme for promoting HC industries recommended that HC industries be exclusively import substitutes and evolving export promoters(especially where Korea had comparative advantages), the new plan developed by the Oh Group strongly argued for the export-oriented nature of the HC industries starting from scratch. Further, while the EPB called for a civilian-initiated form of economic operation, in light of the then-current economic problems, the Oh Group saw the problem differently. Given the exigency of national security as well as the economic problems, the HC project could not be promoted by giving too much freedom to individual firms, many of which were building and implementing HC industries. The major contents of the HC plans as developed and put forward by the Oh Group were in sharp conflict with the previous HC industry policies developed by economic planners in the EPB. Yet, given the enormous benefits that might accrue for Park in pursuing the Oh Group's ideas, any such conflict would not arise. The Oh group's ideas, which by and large were Park's own ideas, were particularly appealing to the President, mainly because of their call for stepped-up state intervention in industry. This would enable Park to better deal with all the results of the export policies, and dictated a greater role for the state.

¹¹ Mr. Won-Chul, Oh was the Second Economy Secretariat to the President at that time. He had served previously in the Ministry of Commerce and Industry(1961-1971). Just before his new position in the Blue House, he was the Chief Assistant to the Vice Minister of Manufacturing Industry of the Ministry of Commerce and Industry. In this position, Mr. Oh specialized in HC industries, as the need to promote them rose for the reasons discussed in Chapter Four.

Stressing the urgency of building HC industries for both industrial and security reasons, Park would effectively go beyond the EPB consensus on the piecemeal HC promotion and on the liberalization which, if pursued, might well have activated the influence of the civil society as well as of the state. In achieving such tasks, HC promotion, Park categorically, stressed, would play an essential role. Thus, guided by such logic, Park, regardless of his prior long-term strategy, would place HC industrialization at the core of his new one. In this way, the emergence of the movement toward liberalization in the locus of state decision was put to rest without refractory protestations from any quarters.

In this process, one characteristic feature was the sudden rise of a new state institution called the HC Industry Promotion Council(hereafter HCIPC). The Council, composed of the Prime Minister and Ministers of various industry-related ministries, would discuss and formalize various plans that were being formulated by its special task force, the Planning Office of the HCIPC. Previously, setting up an industrial strategy was the responsibility of the official planning institution, the EPB, which, in collaboration with other economic ministries, ran the central planning network. Yet, since the chief executive defined the situation and felt that a new special task force was necessary to promote the HC industry project the Planning Office became, at a stroke, a *de jure* yet powerful workhouse for HC industry promotion, even before it formally became the state institution. In consequence, the EPB and other state institutions concerned with economic affairs were to facilitate the HC project within the control function of the Planning Office, which had few members but was headed by powerful Presidential Secretariats maintaining close contacts with the President. In other words, economic decision-making was short-circuited through the Planning Office to the President, frequently by-passing the EPB. The EPB had little control over private businessmen's access to the Second Economic Secretary or their direct access to the President.¹²

It follows from the foregoing that one crucial question is why the NWP programme was eliminated in this industrial reorganisation process? We can infer several possible reasons.

¹² Byung-Sun Choi(1989), "The Changing Conception of Industrial Policymaking in Korea," The Korean Journal of Policy Studies, Vol. 4. p. 20.

Firstly, under the Park regime, a single value become a constraint upon goal-diversification. As Heilbroner pointed out economic development was not primarily an economic process in Korea but a social and political process.¹³ President Park realized that economic development was the key to its own political success as well as to the establishment of political stability and as the means for overcoming negativism and frustration in the country. The government, therefore, renewed its commitment to economic development and sought political, economic and industrial reforms conducive to economic growth. Once again, Park's strong drive motivated the bureaucracy to formulate administratively planned "economic growth", and urged the administrative elite to put all their efforts into the effective implementation of a planned economy. In these circumstances, all the administrative tasks in every executive branch became fully geared and with top priority to HC industrialization. This was well manifested by President Park's declaration in the beginning of 1974 that "regardless of such a serious international challenge as the oil crisis of 1973, the Yushin authority appeared to be ready to embark on a new course of export-led HC industrialization."¹⁴

This situation also explains why the NWP programme has deliberately been postponed. Along with the development of new industrial restructuring strategy, the NWP programme was destined to be postpone not because the government had to concentrate its attention on the new HC industries, but because the government needed strong social control to be secure from social demands and pressures arising from issues of distribution. They did this by dissolving any organized sources of opposition to the state's economic policies and by neutralising any challenge to the central authority. The top government officials worried that the implementation of the NWP programme would only stimulates the people's expectations.

Secondly, there were not available any comprehensive or integrative developmental models by which political leaders could harmonize economic, social and technical changes at the level of national development planning. Because of the traditional development strategies had been fashioned in Korea in a monolithic and rigidified way, any sincere attempt to

¹³ Heilbroner, R.(1963), *The Great Ascent*, New York: Harper and Row, p. 24.

¹⁴ Chung-Hee Park, "The New Year's Presidential Press Conference," The Office of the Presidential Secretariats, *op.cit.*, pp.222-223.

change the concepts and strategies of national development was in itself of grave political significance.

Thirdly, the postponement of the NWP programme was due to the objections of interest groups, composed of big corporations, which mobilized their political power and utilized the state to bar the implementation. Although the industry groups did not have enough political power to oppose the will of the government, as we mentioned before, the government had to listen to the business community because the maintenance and the legitimacy of Park's regime hinged on economic development, that is, the new HC industrialization. The industry groups objected persistently to the implementation of the NWP programme. For example, the statement of Korean Employers' Federation asserted that:

"At present, the Korean economy is in adversity. Since the oil crisis in 1973, Korean economy did not overcome a recession and this difficulty will continue for the next one or two years. The immediate task that all Koreans should concentrate on the situation is the present mass unemployment.... Even though we are not against the NWP programme itself, the programme which will be implemented on 1st of January, 1975, should be postponed one more year."¹⁵

Their logical was that financing such a payroll tax would cause considerable problems if it resulted in an increase in the unit cost of labour. It would raise domestic prices, increase the relative cost of labour, and probably affect the growth of employment, which would be highly undesirable at Korea's present stage of development. Furthermore, instead of a NWP system, industry groups were advocating a medical insurance system for their workers, largely because the latter is both less costly than a NWP programme and also helpful for the maintenance of healthy workers.

Finally, even though there is no concrete evidence to prove conclusively which interpretation is more relevant, it seems that in the view of top government officials, under the circumstantial evidence which the industrial strategy was changed, the implementation of the NWP programme would only stimulate the people's expectations without providing a sufficient financial yield. Originally, the KDI estimated that the scheme could mobilize about 100 billion won in less than two years. However, the provincial reserve fund was decreased according to the policy-making process and

¹⁵ See, the KEF(1974), The Statement on the Extension of NWP Postponement, September.

finally, was estimated at 23.3 billion won for the year of 1974. It had not come up to the government's expectation, so that the NWP programme disappeared from top policy-makers' sight.

Compared to light industry, the development of the HC industries needed the mobilization of far larger amounts of capital and technology with more complex forms of processing. The only financial source available to the new industrial strategy was foreign capital inflow through the governmental approval and guarantees. As a result, in June, 1973, it was announced that the government would encourage foreign capital--a critical component of Korean industrialization--in promoting new HC industries, while foreign capital channelled into the light industries would be restricted.¹⁶ In the following month, the EPB provided the Long-Term Plan for Inducing Foreign Capital, assigning 10,032 million won worth of foreign capital for HC industry promotion. Furthermore, in order to mobilize domestic funds for the HC industry promotion, the Ministry of Finance announced in August that it would establish the National Investment Fund, which would not only issue national bonds but also mobilize public employee pension funds and a substantial portion of private savings at regular banking institutions.¹⁷

In conclusion, the NWP programme was initiated with dual-purposes: socio-economic palliation and economic acceleration. However, the programme was postponed by the political strifes among policy-makers in the process of the formation of industrial restructuring strategy. For all the above reasons, the oil crisis of 1973 made a plausible excuse to postpone the NWP programme. This observation supports the suspicion that the NWP policy-making was aimed primarily for political propaganda, with very little intention of promotion and implementation of the programme. The government seemed to use the NWP programme as an instrument for social control. Interestingly, the NWP scheme was initiated and developed during the preparation of the Yushin constitution under martial law.

¹⁶ Sumiya Mikio(1983), The Korean Economy, The Hanul Press, Seoul, Korea. p. 302. Korean.

¹⁷ The Jaegye Press(1973), "The national Investment Fund Law for the Promotion of HC Industry:Its Purport and Problem", Jaegye Wangae, October. pp. 18-23. In Korean.

6.2. The Government Policy Switch: Implementation of the Medical Insurance Program.

In the previous section, we analyzed the reasons why the NWP programme was postponed in 1974. Even though the negative environments were much improved thereafter, it was not until 1988, after the amended law passed in 1986, that a National Pension system was really implemented by the Korean government. Nevertheless, several other social welfare programmes such as, the Medical Insurance Scheme in 1977, the Welfare Law for the Aged in 1981, and the Welfare Law for the Children in 1982, were implemented during this period.

In this section, therefore, we will mainly focus on the background and development of the Medical Insurance scheme of 1976, because the Medical Insurance programme competed with the NWP programme in policy priorities, and further because the development of the medical insurance scheme had an effect on the implementation of the NWP programme. Originally, the Medical Insurance Law was enacted in 1963. However, it remained as a voluntary pilot project rather than a medical insurance programme for the following reasons: First, the government, which had given priority to economic and industrial development, believed that implementation of the programmes would stagnate economic development; second, the scarcity of medical resources at that time stood in the way; finally, the programme's implementation would lead to better health and could be expected to result in a faster rate of population growth than that which Korea had already seen. As a result, the NWP programme took precedence over the medical insurance scheme because a part of the reserves expected to be accumulated under the NWP programme could be utilized to invest in hospitals and other medical facilities in rural and local communities.¹⁸

It was drastically changed again. The Medical Insurance programme was introduced in 1977. It was reported that the original Fourth Five-Year Economic and Social Development Plan(1977-1981) did not contain this scheme, but President Park abruptly ordered the introduction of the medical insurance as one means of social security.¹⁹ Furthermore, President Park

¹⁸ Chong-Kee Park(1975), *Ibid.*, p. 50.

¹⁹ Hapdong News Agency, *Korea Annual 1978*, pp. 38-40.

stressed the importance of expanding the accessibility of health care services to the poor by stating that health care is the "fourth basic necessity of life" along with food, clothing, and shelter.²⁰ Therefore, it will be useful to examine the reasons for the government's social security policy switch²¹: why did the need for medical insurance attract the Korean government's attention in 1976 instead of the NWP programme ?

6.2.1. The Background of the Medical Insurance programme of 1976.

Since the MOHSA established the Social Security Committee in 1962, the Committee drafted the medical insurance system to be introduced to the legislature in 1963. The Committee originally planned the medical insurance programme as having a comprehensive and compulsory basis. However, the Medical Insurance Law of 1963 did not propose a system of "compulsory" medical care insurance for several reasons as we mentioned above.²² Only eleven government-authorized pilot insurance programmes, therefore, were created until 1976.²³ In 1970, a law laying down compulsory medical insurance for civil servants, military personnel, and industrial workers was approved but not implemented, because of the same reasons.

The general question here is that why did the need for medical insurance attract the Korean government's attention in 1976? In other words, why did the medical insurance system have a priority over other social policies although the action for medical insurance appeared to be ill-prepared?

The development of new policies can be explained in terms of the effects of specific social pressures on the government. In this perspective, the

²⁰ Chong-Kee Park(1980), "The Organization, Financing, and Cost of Health Care," in Chong-Kee Park(ed.), Human Resources and Social Development in Korea, Korea Development Institute. p. 97.

²¹ Some of my interviewees disagreed to use the terminology "policy switch", mainly because they argued that the implementation of the medical insurance scheme was a return to the MOHSA's original plan. However, one interviewee, Yong-Moon Kim who was in charge of Pension System Division, MOHSA at that time, strongly agreed that it was obvious policy switch because the medical insurance was implemented by President Park's personal will. He added that the MOHSA concentrated their attention on the implementation of NWP programme during the Fourth Five-Year Plan. I will follow the Mr. Kim's opinion.

²² For more details, see. Joon-Kyu Sohn(1983), Ibid., pp. 114-119.

²³ Chong-Kee Park(1980), Ibid., p. 122.

emergence of social policies is the government's intention to cope with the political, economic, and social pressures through its strategic choices. The development of the Korean medical insurance policy also seems to be the unique and complex result of political, economic and social conflict in the country. In order to analyze this complex process, it is necessary to identify the social and political forces that led to the emergence of the medical insurance policy.

Firstly, as Starr pointed out, the proponents of social insurance also expected that it would increase industrial productivity by creating a healthier labour force.²⁴ The success of Korean industrialization created an increase in demand for industrial labour. During the 1970's, the quality and stability of the labour force had become more problematic, as the form of the principal industries was transformed from light industries to HC industries. Once workers are no longer easily interchangeable, the maintenance of those who have acquired skills becomes a matter of social concern. The significance of this factor in the development of medical insurance in Korea is also evident from other political developments. Due to the postponement of the NWP in 1973, the policy-makers agreed to consider an alternative policy choice as a central social welfare policy. Furthermore, instead of a NWP programme, employers were advocating a medical insurance system for their workers largely because medical insurance is helpful for the maintenance of healthy workers.

Secondly, as reflected in documents, reports and pieces of legislation, the emergence of the medical insurance policy in Korea is found to have been influenced by the economic and political structures of the country.²⁵ Until the 1970's, the implementation of compulsory health insurance was halted mainly by the political priority of "economic development." The economic development of the country in the 1960's and early 1970's was believed to rest upon industrialization, and thus it was reasonable for the state to give a priority to health resource allocation to its industrial workers.

Thirdly, another important political factor in the situation of Korea was related to external conflicts and international pressures. Dialogue between

²⁴ Paul Starr(1982), The Social Transformation of American Medicine. New York:Basic Books, Inc. Publishers. p. 239.

²⁵ Sung-Nam Cho(1986), "The Impact of Medical Insurance on Health Care Delivery in a Developing Country:A Case Study of the Medical Insurance System in Korea." A paper presented in the Dept. of Sociology. Univ. of Hawaii.

North and South Korea was initiated during the 1970's. In order to assure a favourable comparison between the conditions of the two different Korean populations, the South Korean government felt the need to pay attention to the social welfare of the population in addition to economic development. Since North Korea was admitted to the World Health Organization(WHO) on 17th of May, 1973, the North Korean delegation to the WHO took every opportunity to criticize South Korea's medical situation. This was reported to the President of South Korea, and, as a result, President Park ordered the introduction of the medical insurance programme.²⁶ Moreover, during the 1970's, several development agencies, such as the United Nations, World Bank, and International Labour Organization, urged their member states to pay attention to the broader welfare implications of economic development.²⁷ These international expectations created additional new pressures on the Korean government.

Fourthly, the medical insurance programme had been postponed for sixteen years, so that the government and policy makers felt a sense of pressure from the general public to implement this scheme.

Fifthly, an attempt to explain why government adopted the medical insurance policy must take into account not only these wider social, economic, and political considerations, but also developments within medicare itself. The organization of health care delivery was noticeably underdeveloped in Korea. Group practice was almost nonexistent. The bulk of health service was supplied through the mechanism of the free market with an eye for profit and was largely confined to the major urban centres.²⁸ The medical services were sold almost exclusively to the middle- and upper-income classes who could afford to pay for them. The poorer segment of the population had little in the way of health care available to them, except on a public assistance basis in general hospitals run by the city governments. Even there, the opportunities for free treatment were extremely limited. Such hospitals were often inadequate because of insufficient financing and the quality of medical services provided was far from satisfactory.²⁹ With the

²⁶ Interview with Professor Ok-Ryun Moon.

²⁷ Margaret Hardiman and James Midgley(1982), The Social Dimensions of Development: Social Policy and Planning in the Third World. John Willey & Sons Ltd.

²⁸ In comparison with the nation's population resident in urban areas(48%), almost 83% of physicians and 87% of the medical facilities were concentrated in urban areas. See, EPB(1976), Preliminary Outline of the Fourth Five-Year Economic Development plan, Seoul. April. p. 207.

²⁹ Chong-Kee Park(1980), Ibid., p. 107.

rapid rise in medical care costs, the ability to afford adequate medical care was no longer a problem only for the poor. Therefore, political pressure on the state increased as the cost of medical care went beyond the financial means of much of population, coupled with a general belief that health care should be a major concern of society. During the mid-1970's, frequent deplorable events became public knowledge. Patients in critical conditions were being denied medical treatment because of lack of sufficient money to pay for their treatment or the deposit for hospitalization.³⁰ At this time, several hospital directors were arrested and the mass media focused social attention on this problem. As a result, President Park promised medical benefits for the poor and working class.³¹

Finally, a new national health planning strategy was incorporated in the inauguration in 1975 of a USAID-supported low-cost health delivery demonstration project in three remote rural communities. The Community Primary Health Care Demonstration Project had two major purposes.³² First, to establish the capability within the government to plan, conduct and evaluate low-cost integrated health delivery projects directed primarily toward low-income rural families. Second, to demonstrate successfully a multi-county low-cost integrated health care delivery system that was replicable in other parts of Korea. The loan agreement created the Korea Health Development Institute(KHDI) which was charged with the actual implementation of the demonstration project and also called for a systematic evaluation of the health demonstration project by the National Health Secretariat established within the Korea Development Institute(NHS/KDI). In order to carry out this field demonstration project and to test new ways of delivering primary health care to lower-income groups, the Korea Health Development Institute was established in April 1976.

As a consequence, the government became concerned about health problems which had remained unrecognized and unattended to despite the urgent need to solve them, not only because of poverty, but also because of a lack of knowledge, health consciousness and health concern among the people and the government.³³

³⁰ John-Kyu Sohn(1983), *Ibid.*, p. 140.

³¹ Interview with Prof. Ok-Ryun Moon and Prof. John-Kyu Sohn.

³² Chong-Kee Park and Ha-Cheong Yeon(1981), Recent Developments in Health Care System in Korea. KDI Monograph 8106. pp. 19-20.

³³ Interview with Jae-Sung Min who was a head of the NHS/KDI at that time.

To sum up, the medical insurance system in Korea was implemented as a response to various sources and degrees of social-political pressures. From this discussion, it would be impossible to identify one main reason why the medical insurance policy in Korea was implemented in 1977. Rather, various environmental pressures were convergent, and the state function was one of responding to these various demands through social welfare policies.

6.2.2. The Development of Medical Insurance System.

In these circumstances on 22nd of December, 1976, the government enacted Law Number 2942 which drastically amended the original Medical Insurance Law of 1963. The ultimate objective of this programme was to improve national health and enhance social security by facilitating access to medical care in the event of illness, injury, childbirth, or death.³⁴ In order to make use of the available medical resources, the law established a new social insurance scheme aimed at pooling the resources of a wider segment of the population. With the enactment of this law, the government of Korea has taken a major step towards enhancing the welfare and the productivity of its people.

The new law establishes a two-part medical insurance programme including: The first part(Class I) which covers workers and their dependents in large companies(in 1976 defined as 500 or more employees), and participation is compulsory. The second part(Class II) which is a voluntary community-based insurance plan for the self-employed and others, e.g., farmers and family workers. In addition to the 1977 medical insurance provisions, the government also adopted a medical assistance programme(medicare) to serve the poor eligible for public assistance. This is wholly government-financed and administered.

The first choice to be made in designing any social insurance programme concerns the extent of population coverage. The experience of foreign

³⁴ See, Article 1 of the Medical Insurance Law of 1976.

countries indicated that the initial efforts of medical insurance schemes are often directed toward covering the less fortunate groups of workers.³⁵ In Japan, for example, health insurance originally covered manual workers with earnings below a certain income level, working in specified industries for firms with five or more workers. The scheme was gradually extended to cover employees with earnings above this income limit.³⁶ In the Korean case, however, the compulsory medical insurance scheme initially covers persons employed by firms with 500 workers or more. Workers in establishments that employ fewer than 500 workers or more, therefore, may be insured voluntarily with the approval of the MOHSA. In this event, at least two-thirds of the employees of the firm must consent to form a voluntary association. In view of the fact that the workers employed by small marginal firms are more likely to be medically indigent than those in large establishments, the extension of health protection to them and their families is most urgent. It was against the basic principle of social justice to create an elite group consisting exclusively of the employees of the larger firms. The Medical Insurance Law of 1976 provides voluntary coverage for self-employed workers such as shop owners, casual workers, domestic workers, and day labourers(Class II insured).³⁷ As of 5th of July, 1977, however, no voluntary medical insurance associations had been organized for self-employed and other workers.

As a result of the general dissatisfaction caused by the limited coverage, pressure was applied to upgrade the coverage and hence the government decided to tie itself down to the medical insurance programme. As a result, the NWP programme was naturally neglected by the government. As we can see in Table 6-1 and 6-2, the medical insurance programme has made much progress since it was implemented in 1977, gradually expanding its coverage. In 1979, the scope of Class I was extended to employees and their dependents in firms with 300 employees or more. In the same year, compulsory medical insurance programmes for governmental employees, including public school teachers and military personnel, and for private school teachers were launched. Two years later, the insurance system

³⁵ Chong-Kee Park(1980), *Ibid.*, p. 126.

³⁶ Social Insurance Agency(1976), Outline of Social Insurance in Japan. Tokyo.

³⁷ See, Articles 6 & 19 of the Medical Insurance Law of 1976.

began to cover employees of companies hiring 100 or more and in 1983, it embraced employees of plants with 16 or more employees.

Table 6-1: Key Dates in Development of Korean Medical Insurance System.

Dates	Events
1963	Enactment of the Medical Insurance Act.
1970	Amendment of the Medical Insurance Act.
1976	Amendment of the Medical Insurance Act.
1977	(1). Implementation of compulsory medical insurance for workers in large establishments employing 500 or more workers. (2). Enactment of the Medical Protection Act(Medical care for the poor under the Public Assistance Law).
1979	(1). Medical insurance for civil servants and school teachers. (2). Medical insurance for the workers in firms employing 300 or more.
1981	(1). Medical insurance for the workers in firms employing 100 or more. (2). Medical insurance for 3 experimental districts of agricultural and fishery villages(Hongcheon, Okgoo, & Koonwi).
1982	District medical insurance for 3 additional experimental districts(Kanghwa, Boun, & Mokpo).
1983	Medical insurance for the workers in firms employing 16 or more.
1988	Medical insurance for the residents of farming and fishery villages.
1989	Medical insurance for the urban poor.

Table 6-2: Population Coverage of Social Security Medical Care Programmes, Korea, 1977- (Number: 000)

Year	Total Population	Medical Insurance	Medical Assistance	Percent of Population
1977	36,436	3,212	2,095	14.5
1978	37,019	3,883	2,095	16.1
1979	37,605	7,791	2,314	26.4
1980	38,124	9,111	2,142	29.5
1981	38,723	11,407	3,728	39.1
1982	39,331	13,611	3,728	44.1
1983	39,951	15,577	3,728	48.3
1984	40,578	16,755	3,259	49.3
1985	41,209	17,886	3,259	51.3
1986	41,569	19,361	4,386	57.1
1987	42,082	21,257	4,386	60.9
1990				100.0

The system, however, has drawn criticism from many rural residents and poor urbanities as it has mostly benefited the "haves". Although the government has subsidized medical care for the poor under the social assistance programme, many rural residents and less well-off urbanites have been denied the low-cost medical services. As a result, Class II coverage was made compulsory in 1981, but only in three demonstration counties. Based on experience from this pilot project, the government was planning to expand this demonstration to nine counties by 1985 and decided to extend the application of the medical insurance system to all rural residents in 1988 and to the poor urbanites in 1989. The nationwide medical insurance system was achieved 12 years after a medical insurance system was introduced in 1977.

6.3. The Development of NWP Programme, 1974-1985.

As we mentioned before, the NWP programme was enacted on 1st of December, 1973, and the Implementation Decree was passed by the Cabinet Council on 28th of December, 1973. The government, on the other hand, got everything in readiness for the coming into force of the NWP programme with the establishment of the Bureau of National Pension in the MOHSA and the Bureau of Pension Collection in the Office of National Tax Administration. However, the NWP programme was called off for one year under the President's Emergency Decree of 14th of January, 1974, and then the plan was postponed one year again because of "insufficient economic and social conditions." At this time, the government revised the contribution rate from 7-8 percent to 5-7 percent paying regard to the national economic conditions. In 1975, the government revised the NWP Law and laid down the implementation of the programme as provided by a Presidential Decree. Finally, a NWP programme was actually implemented in 1988 after the amended law passed in 1986.

In this section, therefore, we will examine the development of the NWP programme during this period of 1974-1985. We will focus on the pension policy in relation to the Korean national development strategies, and political and socio-economic environments. As we have examined already, the pension policy did not take place as an independent happening, rather it was directly related to the goals of the national development strategy. The NWP programme was established deliberately in such a way that its postponement also could be consistent with the national development strategy. For this purpose, we will divide this period into two categories because Korea had two republics during this period: the Fourth(1972-79) and the Fifth(1980-88) republics.

6.3.1. The Development of NWP Programme Under the Fourth(Yushin) Republic, 1974-1979.

A. The Political and Socio-Economic Context.

(1). The Political Process.

As we examined before, the authoritarian Yushin regime could be characterized by two aspects.

The first characteristic was that there was a gap between the well-developed administrative institutions and the underdeveloped political institutions and social pressure groups which could serve as a link between the state and civil society. On the basis of an authoritarian rule, political stability was achieved not through political mobilization of party politics but through bureaucratic administration and the exclusion of the politically activated sector. Bureaucratic expansion took place in the coercive institutions in which military officers, whether active or retired, dominated and in the economic bureaucracy in which civilian technocrats played the crucial role with the strong backing of the President. To penetrate the state bureaucracy, the Park regime established a new recruitment policy which created a special recruitment for middle-class public officials³⁸ from the military officer's rank by reducing the proportion of university graduates in those posts since 1976. Every year since 1976 100 officers were turned into civilian bureaucrats. This is an important factor in militarizing the state bureaucracy³⁹. As a result, state management could hold more power within the state bureaucracy. As a consequence of this bureaucratic approach, the survival of the authoritarian regime depended upon the efficient functioning of the state bureaucracy in promoting economic development. Throughout the Yushin period, depoliticization was attempted in order to replace competitive party politics with "well-developed" bureaucratic rule in the pursuit of rapid economic growth and national security.

³⁸ This rank is class III B before 1980 and class V after the 1980 reform. It is the highest one at which applicants can apply through open competition.

³⁹ More details, see C.I. Eugene Kim(1978), "The Value Congruity between ROK Civilian and Former Military Elites." *Asian Survey*, Vol.18 No.8. pp. 838-846.

The second characteristic was the struggle between the Yushin regime and the antagonists. The Yushin system created tremendous strains within the Korean society. After one year of the Yushin Reform the Korean society mobilized again and numerous political protests against the Yushin constitution occurred. When political channels did not sufficiently develop for transmitting the demands of various socio-economic groups to the regime, the political system faced political strains which could not be resolved by normal democratic procedures. Symptoms of the political strains appeared in the increasing political protests toward the end of the Park's Yushin era. In response to the growing challenge to the Yushin regime, the Park government adopted three measures to control the NDP and other opposition forces.

The first measure was the suppression of freedom of the Press in a way that isolated the opposition forces from the general public.

In the second measure to control the opposition forces, on 22nd of January 1975, President Park announced that his government would call another national referendum on 22nd of February to decide whether or not the Yushin constitution would be retained.⁴⁰

Finally, as the protests continued, the Park government relied on the emergency measures. The regime declared martial law four times and ordered four garrison decrees, in which the army took over all responsibility for public order from the police. Particularly since 1974, the Park regime imposed nine Presidential Emergency Decrees with the common purpose of illegalizing all political activity against the regime where violators were arrested and court-martialed under the investigation of the KCIA. These emergency measures were of basically two sorts: measures to correct the social and economic ills that have often resulted from the Park regime's particular developmental strategy; and politically repressive measures.⁴¹ Moreover, the National Assembly passed three controversial wartime security laws which were designed to cope with threats from North Korea in the wake of the collapse of South Vietnam. The most controversial of these laws was the "Public Security Law" which would place under government surveillance and possibly internment those convicted once of violating the anti-communist and national security laws or other security-related laws.

⁴⁰ Dong-A Ilbo, 22 January, 1975.

⁴¹ C.I. Eugene Kim(1978), "Emergency, Development, and Human Rights: South Korea." *Asian Survey*, Vol.18 No.4. pp. 370-371.

Another security law provided for the organization of a civil defence corps of males between 17 and 50 years. Thus university students were organized into a paramilitary defence corps and military training was compulsory in high schools and colleges. The last of the laws was defence tax law to collect an additional \$400 million annually to augment the defence budget. With this series of laws, Park had made efforts to put the nation on a war footing.

As a result of this political process, President Park was more confident in his Yushin regime than ever before. He perceived that the system had taken root and that a nearly absolute Presidency was secure. President Park, who served his 16th year as the country's chief executive in 1978, was re-elected for another six-year term on 6th of July, nearly six months in advance of his inauguration in late December. All but one of the 2,583 delegates of the National Conference for Unification voted for Park.

However, the 1978 National Assembly election proved an opportunity to challenge the Yushin regime by criticizing the high rates of inflation and the economic mismanagement of the HCIP. The election results were alarming for the ruling elite, even though Park was able to continue his control of the National Assembly by combining the Yujonghoe with the DRP. The NDP, the major opposition party, received more votes than the DRP for the first time during the DRP rule since 1963, chalking up 34.7 percent to 30.9 percent. The urban-opposition alignment worked again, yielding 41.9 percent of the vote to the NDP, while the DRP received only 26.7 percent in the major urban cities.⁴² Because of the election system which provided for the election of two representatives in each constituency, the ruling party was able to win 68 of the 154 contested seats, with 61 going to the opposition NDP, 3 to the Unification Party, and 22 to independents.⁴³ Control of the Assembly by the President was assured through his right to appoint 77 Assembly members under the Yushin constitution. The voters were not in a revolutionary mood. The elections lacked major policy debates because the Yushin constitution and the ninth emergency decree had limited the voicing

⁴² For the analysis of the elections, see, C.I. Eugene Kim(1979), "Significance of Korea's 10th National Assembly Election," *Asian Survey*, Vol.19 No.5. pp.523-532.

⁴³ Sung-Joo Han(1979), "South Korea 1978: The Growing Security Dilemma." *Asian Survey*, Vol.19 No.1. p. 47.

of each candidate's views. The voters also knew that the result of the elections would not involve any power transition. Nevertheless, a majority of the voters clearly expressed a desire for change, discontent with an apparent rubber-stamp assembly and the abuse of power by the executive. In addition, the growth-oriented economic policy emphasizing export products inevitably produced side effects. Although the government had been able to manage these side effects and effectively surmount various economic crises before, the situation began to deteriorate in 1978. The emphasis on exports produced a shortage of consumer goods which was exacerbated by increasing demands brought about by rising wages and the advance in living standards. Price controls imposed on producers of consumer goods discouraged the manufactures. Meanwhile, the inflation became a serious problem. According to a Bank of Korea report, consumer prices rose only 14.4 percent in 1978, but most observers agreed that the actual rate was near 30 percent.⁴⁴

Aside from the very visible social unrest caused by political suppression and economic recession, the opposition camp had reason to become bolden in 1979 in its criticism of the government. The NDP's newly elected president Young-Sam Kim in 1979 launched a series of political assaults against the Park regime. As a result of the confrontation with the regime, the NDP became involved in a very politically important incident. The ruling DRP and the Fraternity for Revitalizing Reforms ousted Kim from the National Assembly. This incident resulted in a large-scale uprising in Kim's native region. The Park government declared martial law in the city and placed it under military control. On the next day, student demonstrations continued in the adjacent city, Masan. The government also placed the city under "garrison decree" under which the army took overall responsibility for public order. With the political situation so volatile, President Park's ruling circle was divided between the hard-liners and those who took a more conciliatory stance in dealing with the student and civilian uprisings.⁴⁵ At the meeting attended by President Park, Chi-Chol Cha, Chae-Kyu Kim and Kyu-Won Kim(President's chief of staff) in the KCIA compound during the night of 26th

⁴⁴ Chong-Sik Lee(1980), "South Korea 1979: Confrontation, Assassination, and Transition." Asian Survey. Vol. 20 No. 1. p. 65.

⁴⁵ Kap-Je Cho(1985), "The Behind the Scenes struggles between Chae-Kyu Kim, and Chi-Chol Cha." Wolgan Chosun, May. p. 224. In Korean

of October, President Park and Cha made charges against Chae-Kyu Kim for his policy failures in handling the political situations. Finally, Chae-Kyu Kim shot President Park and Cha to death, and Korea was thrown into a uncertain period of transition.

B. Economic Process.

The major policy concern of the Yushin regime was to sustain and accelerate rapid economic growth while managing negative aspects of the earlier industrialization and the lagging development of the rural economy. The economic policies of the 1974-1979, which were specified in the Third and Fourth Five-Year Plans, did not deviate from the basic economic growth strategy of the sixties, that is, capitalist industrialization through promoting exports. As we have examined in previous chapters, the stage of the "deepening of industrialization" in late 1960s and early 1970s started with the vigorous adjustment strategies of the government which aimed at promoting the strategic industries. After the formulation of a new economic policy, i.e., the HC industrialization, the Yushin elite attempted to accelerated the export-led industrialization through upgrading and diversifying exports, and furthering vertical integration of the domestic economic structure. As a consequence, there was substantial growth in the HC industries over the period of 1976 to 1979. The ratio of the HC industrial projects increased steadily from 35.2 percent in 1972 to 40.2 percent in 1979. The export-oriented aspect of HC industrialization can be noted in its increasing ratio of the total exports which increased from 11.6 percent in 1972 to 37.1 percent in 1979.

With the HC industrialization plan, the big domestic business conglomerates (Chaebol) were given exclusive opportunities to undertake the industrial projects of the plan. The government supported the transition from light to HC industries by means of allocating large sums of foreign and domestic credit with low interest rates to these preferred big business domestic capitalists in the targeted sector.⁴⁶ The close working relations

⁴⁶ Policy loans allocated for the HC industries accounted for 45.1 % of the total bank loans during the period of 1972 to 1976, and it increased to 50.2 % during the period of 1977 to 1980. See Business Korea, May 1985. p. 17.

between government and domestic industrial capital which had been developed in the early period of industrialization were clearly manifested in the process of implementing the HCIP. In this environment, the new industrial associations were formed to facilitate coordination between the state agencies and private firms, such as the Korea Machine Tool Association, the Korean Society for the Advancement of Machine Industry, and the Korea Shipbuilding Industry Cooperatives.⁴⁷ Industrial associations frequently submitted their proposals for industrial policies for their respective industry either by invitation or on their own initiative, and they also helped responsible state agencies in conducting industrial surveys, devising Korean Industrial Standards and enforcing governmental regulations.⁴⁸ Interactions between government officials and the business community on the basis of seemingly hierarchical relations were supplemented by the cross-cutting interpersonal networks between the business elite and the bureaucrats, on the one hand, and the co-opting of the bureaucrats into the business community after they retired, on the other hand. The close contact of the business elite with the presidential economic advisers and high-ranking economic bureaucrats was institutionalized in such arrangements as the Monthly Export Promotion Meeting and Industrial Policy Committees. The function of such intermediary organizations was crucial in keeping the economic bureaucrats informed of detailed market and industry information.

Consequently, the economic concentration in the hands of the few chaebols rapidly increased as they took advantage of the government's generous incentives in financing and taxation. While the GDP annual growth rate was 10.5 percent during the period of 1973 to 1979, that of the top ten chaebol groups increased rapidly, recording 28 percent. Also, the top ten chaebol groups expanded to 165 companies in 1978 from 80 in 1973.⁴⁹ The dominance of the chaebol was most apparent in the manufacturing sector. They accounted for 74.7 percent of value-added in the sector in 1975, 85 percent in the transport equipment industry and 65 percent in electronics.⁵⁰

⁴⁷ Dong-A Almanac, 1974. p. 222.

⁴⁸ Kwang-Suk Kim(1985), Industrial Policy and Industrialization in South Korea:1962-1982. KDI.

⁴⁹ Dong-A Ilbo, 5 April, 1985.

⁵⁰ The EPB(1980), Statistical Report on Manufacturing. Seoul.

However, a series of socio-political crises were initiated by political issues but also stimulated partially by underlying economic problems, which were a consequence of the extreme export-led development strategy. Statistics reveal the seriousness of Korea's economic problems in the late 1970s. Because of a slowdown in the world economy and its weaker competitive position, Korea's real exports declined. These developments reduced real GNP growth to 7.1 percent in 1979, in contrast to an average annual rate of 12.3 percent achieved in the previous three years, and increased unemployment. Korea's implicit GNP deflator increased by 20.4 percent, its wholesale price index by 18.8 percent, and its consumer price index by 18.3 percent, all higher than in 1978.⁵¹ The unexpected problem was the doubling of oil prices during 1979. On average, the price Korea paid for its oil imports in 1979 was 42 percent higher than in 1978. Rising import prices and declining real exports also widened the balance of payments deficit. The current account deficit rose to US \$4.2 billion in 1979 and the basic balance showed a deficit of US \$1.75 billion.⁵² In addition, the "big push" on the HC industries since the mid-1970s meant serious neglect of other industrial sectors like lighter manufactures, which accounted for a much larger share of total employment. 80 percent of total investment in manufacturing went to these sectors with the direct state initiative in 1977-1979, while 64 percent of total investment in manufacturing was targeted to these sectors over the course of the Fourth Five-Year Plan. Incidentally, the big push on HC industries resulted in a number of distortions that were to have important political implications. First, the big push altered labour's power in the market in the short-run and resulted in an acute labour shortage and wage increases in late 1970s. A second consequence of the big push was industrial concentration, which was a self-conscious component of the strategy of industrial deepening.

An effort to adjust existing development strategy was conducted under the new EPB leadership of Deputy Prime Minister Hyon-Whak Shin, who had long experience as a politician as well as a businessman, plus the substitution of Duck-Woo Nam, a professor-turned-technocrat with an expansionist approach, in December 1978. Shin drew on a group of young

⁵¹ Samuel P. S. Ho(1981), "South Korea and Taiwan: Development Prospects and Problems in the 1980s," *Asian Survey*, Vol. 21 No. 12. p. 1184.

⁵² *Ibid.*

economists of monetarist leanings who had offered the most sophisticated and wide-ranging critique of past policy: Kyung-Sik Kang, Suk-Jun Suh, Ki-Hwan Kim, and Jae-Ik Kim. Within a month of Shin's EPB leadership, the economic cabinet issued a critical report, entitled "New Strategy for the 1980s: For Structural Transformation." The new strategy consisted of four major policies: (1). comparative advantage would be emphasized over industrial targeting and import substitution; (2). a transition would be effected to a private sector-led economy; (3). social development would be given new emphasis; and (4). in general, state intervention would be reduced and market forces given a wider play. In order to cope with HC industry, the government launched a rationalization programme for HC industry. The main features of this programme were: (1). existing firms producing automobile, power plant, and construction equipment were encouraged to merge or to specialize in manufacturing a given product line; (2). bank financing for purchasing domestic machinery equipment was to be increased to a level equal to financing imported equipment.⁵³

This new strategy, however, could not get consensus within the state bureaucracies. The EPB, the Ministry of Finance and the state-run banking community were favourable to stabilization measures, while the Ministry of Commerce and Industry, the Blue House, and the private sector, especially, chaebol, who demanded an increased commitment of resources, opposed it. The World Bank and IMF also strongly recommended a stabilization policy in this process. Although Park himself reluctantly approved it, it could not be implemented in full until his death.

(3). Social Conditions.

The development of a highly inequitable society often produces significant social and political consequences. In the context of Korea, one of the most striking features of the capitalist industrialization may be seen in the socio-economic structure characterized by a high concentration of wealth and privilege in a small segment of the population. The Korean state, since 1961, followed the growth maximization policy through industrialization in order to accentuate the capital accumulation. The pursuit of that policy, while

⁵³ Seoul Kyongje Shinmun. 15 September, 1980.

seeming to be an economically rational course of capital accumulation in the context of a late developing economy, resulted in a variety of social dysfunction. The growth maximization policy paid little attention to the question of distribution and equity. Equality should be sacrificed temporarily in order to achieve rapid economic growth.⁵⁴ This policy orientation can be easily identified in the official title of the five-year plan. The Korean government changed it, from a Fourth Plan(1977-1981), into the Five-Year Economic and Social Development Plan to which, among other things, policy concerns for distribution and equity were added. Changes in policy objectives, however, did not bring about substantial changes in the development strategies adopted in the previous plans. President Park, during his long tenure, had continuously insisted that all would move forward together and that no man should take comfort in prosperity while others were in poverty. Despite such a rhetorical emphasis on the balanced development, the "growth-first-distribution-later" policy has benefited certain sectors of the Korean society much more than others and, some might argue, at the expense of, others. Throughout the period of industrialization, the new middle class expanded mainly in urban areas. As a main beneficiary of rapid economic growth, the new middle class supported political stability and sustained economic growth. As far as economic good times continued, they were satisfied with the new material well-being, while being politically deactivated.⁵⁵

The policy emphasized the industrial sector to the neglect of the agricultural sub-structure. This state policy was primarily responsible for urban-rural income inequality and massive migration from rural areas to urban centres. The state also put an emphasis on large firms rather than medium and small firms by adopting "a policy of financial repression *cum* concentration."⁵⁶ The emphasis on large capital created a small number of chaebol groups, while, in turn, caused the rise of the big bourgeoisie. The wealth has been increasingly concentrated in their hands. The emerging working class has been forced to tolerate the perennial low wage rate in order for the big bourgeoisie to take advantage of the export-led

⁵⁴ Hyun-Chin Lim(1985), Dependent Development in Korea, 1963-1979. Seoul: Seoul National University. p. 120.

⁵⁵ Ui-Byoung Chang(1985), "Democratization and the Middle Class," People. Seoul. pp. 47-48.

⁵⁶ Ibid., p. 123.

industrialization based on the comparative advantage of cheap labour. These and other policies have contributed to the deepening of social inequality in Korean society, which, together with overall political repression, engendered a growing sociopolitical discontent.

Against this strong ruling coalition and its penetrated policy networks under the Yushin constitution, the domestic social activists also accumulated their resisting powers to the Park regime. Unlike 1960s, the Korean society evolved into a serious dual structure between the state running organizations and the autonomous real organizations of the social force like labour, students, and opposition politicians.

Labour forces in 1970s showed some significant development: (1). Against the state sponsored FKTU, the Korean labourers organized themselves into their own autonomous organization promoting class consciousness and thereby increasing conflicts between FKTU and these autonomous labour organizations. Even though the FKTU was a formal organization of labour movement in the 1970s, its activities were extremely controlled by the state. A ruling DRP member represented the limited interests of labour officially, but the majority of workers were not satisfied with that organization; (2). Churches and students were actively involved in cultivating the class consciousness of the workers and their activities; (3). The ratio of female workers dramatically increased according to industrial demand in industries such as textile and electronics, and their labour activities tended to become radical.⁵⁷

Against these social forces, the Korean state became more rigid in its state structure rather than becoming flexible to accommodate them. All these extremes between the Yushin regime and the social forces produced a dual structure in the Korean society.

⁵⁷ The influx of women into the work force aggravated the number of labour disputes in the 1970s. One such dispute, the YH labour dispute of 1979, contributed to the fall of the Park regime.

B. The Development of the NWP Scheme Under the Fourth Republic.

Now, we will examine the development of NWP scheme during the Yushin regime. In other words, how the NWP scheme was processed under the above political, and socio-economic environments. For the proper examination in this section, we will focus on the development of NWP programme within the context of Korea's development plan: the Fourth Five-Year Economic and Social Development Plan(1977-81). This plan was the only one which was formulated under the Yushin Constitution.

The Fourth Plan provided for the systematic promotion of social development which would in turn increase the long-term growth potential of the economy. With the development ideals of growth, equity, and efficiency, the basic objectives of this plan were: a). to build an economic structure for self-sustaining growth; b). to increase equity in income distribution through social development; and c). to improve technology and efficiency of the economy, competing in HC industries.⁵⁸ This policy orientation can be identified in the official title of the five-year plan. The Korean government changed it, from a Fourth Five-Year Plan, into the Five -Year Economic and Social Development Plan to which, among other things, policy concerns for distribution and equity were added. This change was caused by the fact that many government officials and planners began to agree that equitable redistribution of income was an important issue of Korean development. A more equitable distribution of opportunities and income has become a more prominent objective of socio-economic development policy in Korea. In this atmosphere, the Fourth Five-Year Plan emphasised a firm comprehensive social security programme. In order to achieve this object, the plan mentioned that "new laws will be enacted and existing social security legislation will be revised."⁵⁹

The programmes and policy instruments to achieve this social policy were:⁶⁰ (1). The foundation and implementation of a medical insurance programme: a new Medical Insurance programme was to be introduced in

⁵⁸ The EPB(1976), The Fourth Five-Year Economic Development Plan, 1977-1981, Seoul: The Government of Republic of Korea, p. 10.

⁵⁹ Ibid. p. 85.

⁶⁰ Ibid., pp. 85-86.

1977 to provide medical benefits to employed workers and self-employed; (2). Implementation of a NWP programme: under the NWP programme, all residents between the ages of 18 and 60 were to be protected against the long-term risks associated with old age, disability, and death; (3). Extension of Industrial Accident Insurance: participation in the Industrial Accident Insurance would be compulsory for all establishments employing more than 5 workers; (4). Expansion of Public Assistance; and (5). Reinforcement of Social Welfare Services.

In relation to the NWP programme, the MOHSA's proposal for the Fourth Five-Year Plan was as follows:⁶¹

Firstly, the scope of coverage should be expanded on a step-by-step basis. In the first stage of implementation, the NWP programme should apply to firms employing more than 200 workers between 1977 and 1979. The coverage should be expanded so that workers employed by firms with 30 persons or more should be covered between 1979 and 1980, and finally, those in enterprises with 10 persons or more employees should be covered by 1981.

Secondly, the contribution rate should be reduced. The current contribution rate of 7 percent(employer:4%, employee:3%) may overburden both the employer and the employee. The government thus decided to increase the contribution rate step-by-step from 5 percent(employer:3%, employee:2%) in the early stage of implementation and then to have it gradually raised to 0.5 percent every five years.

Thirdly, the "On-Line" system should be established for the utility of pension administration during the plan period.

Fourthly, the present organizational structure is a dual system: the Bureau of National Pension in the MOHSA should manage the general affairs, while the Office of National Tax Administration should collect the contribution. Therefore, the organization should be unified for the administrative normalization and utility.

Finally, under the present National Investment Fund Act, the pension fund should be invested in corporate bonds or deposited in the bank. However, this regulation should be changed and some of the funds should be invested

⁶¹ The Social Security Committee(1976), The Present Condition of Social Security System in Korea, The MOHSA, Republic of Korea. pp. 346-445. In Korean.

in public interested-related projects, such as loan projects and welfare programmes.

On the other hand, the KDI report which was published in 1978 under the title: "Long-term Prospects for Economic and Social Development 1977-1991," also mentioned that "social security expenditures currently account for only 4 to 5 percent of total government expenditure in Korea, compared with 30 to 40 percent in many advanced industrial countries. Even compared with other countries at similar stages of development, Korea devotes a relatively smaller share of its public resources for various social security programmes."⁶² Therefore, "the NWP program should be put into effect during 1979"⁶³ because a social insurance approach should be major focus of our social security programmes in the future.

As we have seen above, political and socio-economic environments in Korea gave most opportunity for implementing the NWP programme in the late 1970s. The environments at that time were nearly the same as the situations which prevailed in the early 1970s when the NWP programme was initiated on the political agenda for the first time. In this situation, restlessness prevailed among the people, so that the government needed some appealing policies to gain public opinion. As a result, the newly appointed Deputy Prime Minister and Minister of the EPB, Hyon-Whak Shin, in 1978, readjusted the existing development strategy itself, that is, instead of government-led, export-oriented development strategies, the new strategy emphasized such policies as comparative advantage, import substitution, private sector-led, and social development. Since the Medical Insurance programme was implemented in 1977, the NWP programme was deliberated as a social development policy without much policy arguments.

When President Park made an annual visit to the EPB in January, 1979, the Deputy Prime Minister and Minister of the EPB reported to the President on the enforcement of the NWP programme from 1980. Meanwhile, the Minister of Health and Social Affairs, Song-Chol Hong, also informed the President of the continuing scrutiny of the implementation of a NWP

⁶² The KDI(1978), Long-Term Prospects for Economic and Social Development 1977-1991, Republic of Korea. p. 167.

⁶³ Ibid., p. 168.

programme when President Park visited to the MOHSA in February, 1979. To reply these recommendations, President Park only instructed that the MOHSA, without giving a concrete form to the enforcement plan, should conduct research into the operational process in advanced countries as compared with the real state of affairs in Korea.⁶⁴ Park had some hesitation in accepting the recommendations like other new policies mainly for two reasons. One of the reasons which underlies the search for alternatives to the NWP is the alarm with which the President and his staff view the financial difficulties social security systems in the industrialized countries faced at that time.⁶⁵

In particular, President Park, as a Japanese policy believer, must have been influenced by the Japanese welfare crisis. Unlike other industrialized countries, the Japanese government played a minimal role in virtually all aspects of social welfare. In most problem areas, the private sector, families, communities, and employers bore the major financial or organizational burdens of welfare.⁶⁶ However, the social security systems underwent a fundamental structural change during the early 1970s, when major improvements in health insurance and public pension programmes were undertaken. When drawing up the budget for the fiscal year 1973, the Japanese government had announced that the year would be "year one of the welfare era." Indeed, the year 1973 saw such an improvement in the system that appeared to be no idle boast. In the areas of medical care, the proportion of a dependent's medical expenses defrayed by insurance under the National Health Scheme was increased from 50 percent to 70 percent. An annual ceiling was also placed on the sum that a patient could be made to pay out of his own pocket. A further innovation at this time was the introduction of free medical care for the aged, i.e., aged seventy and over.⁶⁷

⁶⁴ The MOHSA(1987), A Study on the Social Security System in Korea--With Special Emphasis on the National Pension System. Republic of Korea. p. 37.

⁶⁵ Paul Fisher(1987), "Social Security in Korea in the Eighties," In Il Sakong(ed.), Human Resources and Social Development Issues. Essays on Korea's Fifth Five-Year Plan. Vol. II, Korea Development Institute. p. 220.

⁶⁶ Pempel, T.J.(1982), Policy and Politics in Japan, Tempel University Press, p. 144.

⁶⁷ National Health Insurance bears 70 percent of the medical costs for elderly persons and 30 percent is funded by central and local governments from general revenue. See, Shinya Hoshino(1988), "Perspective of the Japanese Welfare State," In Robert Morris(ed.), Testing the Limits of Social Welfare: International Perspectives on Social Changes in Nine Countries. Brandeis University Press.

In the field of pensions, there were massive increases in benefit levels in both the main schemes, i.e., the Welfare Pension Insurance⁶⁸ and the National Pension Scheme. Even more significant was the introduction of indexation.⁶⁹ The main factors of such significant improvements were:⁷⁰ (1). The Japanese economy had arrived at a stage at which it could allocate resources for purposes not directly related to productivity increases; (2). The surge of welfare-oriented policies in local governments; (3). The fiscal condition was exceptionally favourable.

However, there is always a slip between the cup and the lip. By the end of 1973, just when the government had committed itself to these extensive changes, the economic situation changed dramatically. The oil shock had occurred, and Japan's era of rapid economic growth had come to an end. In real terms Japan's GNP experienced a negative growth in the fiscal year 1974. Furthermore, the need to prepare for the higher proportion of elderly people in the population has come to be recognized more seriously as their numbers have in fact increased. As a result, the budget deficit was bound to increase, because it was difficult to cut expenditure, especially social security expenditure. The share of borrowing in total revenue for the national budget rose from 11.3 percent in 1974 to 25.3 percent in 1975.⁷¹ An increase in social security spending was the most important contributor to the increase in the deficit. With this background, Prime Minister Miki, who had come to power a little over a year earlier promising "to rectify the inequities in Japanese society," was harping on a different theme by the beginning of 1975. He warned that "the government is neither a magician

p. 253.

⁶⁸ With the introduction of an index-linked benefit formula, the Welfare Pension Insurance scheme raised the old-age benefit drastically in 1973, paying 60 % of the past average annual earnings without bonus(about 45 % with bonus) in real terms. This percentage was for a 'model' retiree with an average wage earned for all contributing years. On the sliding scale, benefits vary depending on income, from 42 % for the richest pensioner to more than 100 % for the poorest. See, Noriyuki Takayama(1982), "Japan," In Jean-Jacques Rosa(ed.), The World Crisis in Social Security. Transaction Books. p. 75.

⁶⁹ From 1974 all pensions were to be raised annually to keep pace with inflation, except in years where the Consumer Price Index had risen by less than 5 percent over the past twelve months.

⁷⁰ Yukio Noguchi(1986), "Overcommitment in Pensions: The Japanese Experience," In Richard Rose and Rei Shiratori(Eds.), The Welfare State East and West, Oxford University Press. p. 178.

⁷¹ Yukio Noguchi(1986), Ibid., p. 179.

nor a Santa Claus. Benefits have got to be paid for.”⁷² For the Prime Minister to make this sort of statement was easy; it was to prove far less easy to convince the public of the severity of the problems. In this sense, the next several years saw the unfolding of political and publicity battles.

Under these circumstances, President Park could not but hesitate to give a definite answer. This was because he knew that the NWP programme, like other Korean policies, was modelled on the Japanese two pension schemes, i.e., the Welfare Pension Insurance and the National Pension Scheme. On the other hand, throughout the world as he understood it, most social welfare efforts have involved programmes that, once begun, have been difficult to eliminate or reduce. Furthermore, the question that haunted the President and his staff was whether a full-scale commitment to the NWP programme would undercut long-term economic goals.

Another reason was that the Korean business groups were strongly opposed to the implementation of NWP programme. When the KDI publicized the “Long-Term Prospect for Economic and Social Development, 1977-1991,” and the new economic cabinet under Shin’s EPB leadership reported under the title: “The Strategy for the 1980s: For Structural Transformation.” in early 1979, the business associations adopted all the means in their power to defer the NWP programme.⁷³ This was because they became aware of the government’s intention that the NWP programme would be implemented in late 1979. They kept in contact with the government authorities, while they appealed to public opinion. There was little known about the first means they adopted. In my estimation, however, the businessmen made use of the industrial associations which were formed to facilitate coordination between the state agencies and private firms, and the Blue House expanded meeting for export promotion which would be directly chaired by the chief executive himself. Since the business groups, especially the big business conglomerates (Chaebol), were bound up with

⁷² Asahi Shinbun, 25 January 1975. Quoted from Martin Collick (1988), “Social Policy: Pressures and Responses,” In Stockwin, J.H.H. et.al., Dynamic and Immobilist Politics in Japan, The MacMillan Press LTD., p. 216.

⁷³ Interview with Hoon-Sik Kim, who was among the working-level officials in the Korea Employers’ Federation.

his regime, president Park was in a delicate situation to reject their demands.

To sum up, President Park found himself in a dilemma: If the NWP programme was implemented, the result could be expanding public expenditures, less flexibility in the selection of economic goals, and a fundamental change in the government's essential priorities. Yet failure to move in such a direction might eventually reduce the political support for his regime, a reduction which could well result in many of the same consequences. Therefore, the NWP programme of the Fourth Plan was doomed to continuous postponement until Park's death on 26th of December, 1979.

6.3.2. The Development of NWP Scheme under the Fifth Republic.

A. The Political and Socio-Economic Context.

(1). The Political Process.

Since President Park had concentrated virtually all political power around himself, his assassination created a political vacuum. Immediately after Park's death, nation-wide martial law was declared and Premier Kyu-Ha Choy was elected President in December, 1979 by the "rubber stamp electoral college," the NCU. However, contrary to the Korean people's expectations for democracy, Lt. General Chun, who had been the Commander of the Korean Defence Security Command since 1979, established another military regime with another military coup on 17th of May, 1980. Having suppressed the Kwangju uprising with brute force,⁷⁴ Chun further tightened his grip on the government bureaucracy. On 31st of May, the Special Committee for National Security Measures(SCNSM), that is, the "KUK-PO-WI" in Korean, was created as the Junta Council for the ostensible purpose of "aiding the President in directing and supervising

⁷⁴ During this incident more than two hundred citizens and students were killed. This incident was too serious for the Chun regime to handle and legitimate itself during its last seven years' rule.

martial law affairs and to examine national policies.”⁷⁵ In effect, the affairs of state were to be controlled by the 31-member Standing Committee of the Special Committee(SCSC),⁷⁶ headed by Chun himself. In the process of Chun’s power consolidation, these committees were, in any event, to have the absolute authority to pass laws and make all decisions affecting the state until a new National Assembly came into being. Further, Chun created the National Security Legislative Council(NSLC) including 81 members with core military generals to prepare a new constitution and enact all laws until the new National Assembly took place on 30th of June, 1981. A basic legal mechanism was established to consolidate Chun’s military power-base by means of repressing labour activities, student protests, social unrest, the press, and political opposition. A new labour law was adopted that banned industrial unions and regional labour federations. This measure and other restrictions led to a 30 percent drop in union membership and severely weakened the ability of the unions to organize. A new press law was adopted, putting the media under strict government control; the National Security and Anti-Communist Laws used to imprison dissidents in the 1970s were combined to institutionalize the worst decrees of the Park era.

After seizing power, on the other hand, Chun moved swiftly to refashion Korea in the image of a “new society.” In the weeks following the 17th of May Coup, thousands of people suspected of subversive thought and activities were arrested, dismissed from their jobs, or sent to “purification” camps run by the military. A total of 711 journalists were expelled from their positions, while several hundred labour leaders were purged from the labour movement or dismissed from their jobs. In addition, Chun moved to purify Park’s old political system, on one hand, and to establish his power base, on the other. Chun reduced the power of the KCIA, renamed it the Agency for National Security Planning(ANSP), and transferred some of its power to the Defence Security Command. Chun ordered 567 political leaders and former party officials to cease political activities for eight years. This order applied to Young-Sam Kim, Dae-Jung Kim, and Jong-Pil Kim who were most prominent politicians in the “Spring of Seoul” in 1980. He disbanded all

⁷⁵ Dong-A Ilbo 1 June, 1980.

⁷⁶ This Committee was almost similar to the Park’s Supreme Council for National Reconstruction in 1961.

political parties of the Fourth Republic, purged their leaders, and ordered a multi-party system for the Fifth Republic.

According to a new constitution, basically on the same lines as the Yushin constitution with indirect presidential election, Chun was formally inaugurated as President of the Fifth Republic on 3rd of March, 1981. This was preceded by a national referendum for a new constitution on 23rd of October, 1980 and followed by a general election for a new National Assembly on 25th of March, 1981. After consolidating his power, Chun appointed his military followers to positions within the state bureaucracy, such as the cabinet and the presidential mansion, the National Assembly, and the ruling Democratic Justice Party(DJP). Chun's inaugural address outlined four goals; (1). to domesticate democracy to fit uniquely Korean conditions; (2). to bring about a true welfare state; (3). to establish a just society; and (4). to revitalize the national spirit through educational reforms and the promotion of Korean cultural norms. In addition to these goals of the "new era," Chun proclaimed national emancipation from; (1). the perennial threat of war from the north; (2). poverty; and (3). political oppression and the abuse of power.⁷⁷

As the slogan of "economic miracle" as propounded by the non-democratic security-centred system of Yushin was not any more acceptable to the Koreans, the Chun regime emphasized "welfare and justice" as its state goals rather than "anti-communism" and "economic development." A "liberalization" policy was implemented to improve the economic and social conditions(except political life) by ending a 35 years old curfew and removing several regulations on foreign travel and administration. The state adopted "economic liberalization and stabilization" rather than "command over the economy."

Despite these formal goals and slogans, the actual operation of the Chun regime was far from achieving them and continued the repression of the political activities of the opposition members before the 1985 national election. The National Assembly election in 1985 was the turning point in the Fifth Republic's political process. Under the Chun regime, the National

⁷⁷ The Office of Presidential Secretariat(1981), The Collection of Speeches by President Doo-Hwan Chun. Seoul. pp. 45-53. 342-349. In Korean.

Assembly continued to be relegated to the position of ratifier, rather than initiator of policy, with its substantive functions barely exceeding those of a debating society.⁷⁸ Yet the election for the National Assembly held on 12th of February, 1985, the second under Chun's rule, produced results that stunned all observers and may well turn out to be a significant milestone in Korea's tortuous path to democracy. Just before the National Assembly elections, President Chun lifted a ban on political activities for 84 persons. That marked the third time in four years that former politicians were removed from Chun's blacklist, which, when first drawn up in 1980, had contained 567 names. Fourteen persons, however, still remained on the list; they included such political heavyweights as the "three Kims" and Hu-Rak Lee.

Nevertheless, the newly liberated politicians included at least 26 former opposition members of the National Assembly and 18 persons who had served in leadership positions of former opposition parties. These opposition politicians became the nucleus of the New Korea Democratic Party(NKDP), which made its debut on 18th of January. Despite their different factional affiliations, the NKDP members were united in their opposition to Chun's rule and in their strong commitment to democracy.⁷⁹ Their personal convictions combined with a strategic imperative--i.e., the need clearly to differentiate the NKDP from the established opposition parties--to produce militant rhetoric at the outset.

The outcome of the election was most surprising of all. The DJP retained its predominant position by polling the largest number of votes--35.3 percent; that was only a fraction of a percentage point lower than its 1981 record. But the NKDP, barely a month old, had managed to outperform both of the established opposition parties, and its share of the popular vote(29.2%) was only 6 percent point lower than that of the DJP. Furthermore, the NKDP outperformed the DJP in urban areas by a wide margin. In the five largest cities⁸⁰, which accounted for 42 percent of all the

⁷⁸ B.C. Koh(1985), "The 1985 Parliamentary Election in South Korea."

Asian Survey, Vol. 25 No. 9 p. 883.

⁷⁹ The new party which was formed belied its multi-factional background. Its chartered members were divided into two broad groups: those who were affiliated with the Consultative Group for Promotion of Democracy and those who were not. See, Dong-A Ilbo, 18 January, 1985.

⁸⁰ Seoul, Pusan, Taegu, Incheon, and Kwangju.

votes cast in the election, the NKDP led the DJP by a ratio of better than 4 to 3.

Politically, the NKDP's emergence as the number one opposition party would have far reaching effects:⁸¹ Firstly and foremost, the Chun government would face an outspoken opposition for the first time in four years both in and out of the National Assembly; it would have a "challenge" instead of a "sparring partner." Secondly, the unexpected strength of the NKDP in the election helped to transform Korea into a *de facto* two-party system. The voters who supported NKDP candidates in effect repudiated not merely the Chun government and his party but the established opposition parties as well. The DKP was handed a humiliating rebuke, from which it was powerless to recover. Most of the newly elected DKP assemblymen switched their allegiance from the DKP to the NKDP.⁸² Thirdly, as a result of this, the role of the National Assembly was certain to change; it would no longer function as a ratifier of predetermined policy and a mere debating society, but would assert the right to shape policy and to hold the government accountable for its actions. Having broken the one-third barrier, the NKDP has secured the right unilaterally to convene the Assembly and to initiate a motion to dismiss a cabinet member. It had also acquired the power to prevent the passage of any proposal for constitutional revision the ruling party might submit. Finally, the series of conciliatory measures that followed in the wake of the election suggest that the Chun regime would not and could not conduct its business as usual but must adopt to the winds of change. One of these measures was the lifting of a ban on political activity for 14 persons, thus dismantling the blacklist altogether. Another sign of conciliation was the continuation of relatively free reporting in the Press. Lastly, contacts between leaders of the ruling party and those of the NKDP became increasingly frequent.

Unlike the previous Korean constitution, the Fifth Republic constitution limited the presidential tenure of office to a single seven-year term. President Chun, therefore, was due to conclude his term of office before 3rd of March, 1988, whereupon a new President was to be elected. What the anti-government opposition forces were demanding was a new sixth constitution(to be implemented before the expiration of President Chun's

⁸¹ B.C. Koh(1985), *Ibid.* pp. 895-896.

⁸² See, Dong-A Ilbo, 3-4 April, 1985.

term of office) which would use a new popular direct presidential election method. When President Chun and his government refused to yield to their demands, opposition forces pressed the issue with mass appeal tactics such as popular petition drives and rallies. Under mounting pressure from political dissidents, however, the Chun government was gradually forced into a compromise agreement with opposition forces to create a committee within the National Assembly charged with producing a new draft constitution before the conclusion of the Autumn session of the National Assembly in 1986. As a matter of fact, such a committee, known as the Special Constitution Revision Committee, was organized on 24th of June. However, the Special Committee were unable to produce a draft constitution. Consequently, Korean politics were thrown into a uncertain situation.

(2). Economic Process.

According to the basic goals of the Chun regime which sought to establish a "new society" of "welfare and Justice", the Chun government readjusted its development strategy very fundamentally by adopting two major shifts. The first one was its emphasis on social development, as the formal title of the long-term plan itself was renamed to the Fifth Five-Year Plan of Economic and Social Development, 1982-1986. Although this shift was proposed previously in late 1970s, however, its actual shift was made in the early 1980s under the Chun regime. Second, and more importantly, the basic development strategy was shifted from one of rapid growth with inflation to continuous, stable growth with price stabilization.

The Chun administration inherited from the previous Park government many economic problems in 1979, including a phenomenal inflation of 44 percent, an unemployment rate of 5.7 percent, the huge investments in HC industries, heavy defence burdens, and so on. In addition, political instability following Park's death and the rise of the Chun regime itself caused a 5.7 percent decline in the GNP in 1980(the first such drop since 1956). Under these circumstances, the Chun regime attempted to cope with two difficult economic problems, namely, how to contain inflation in the face of rising oil prices, and how to prevent a further deterioration in the balance of payments

when the export market was weak and import costs were rising.⁸³ The Chun regime moved boldly and announced: (1). a wage guideline that called for holding nominal wage increases to 15 percent during 1980; (2). a 20 percent devaluation, from 484 to 582 won per US \$; (3). a continuation of its tight monetary policy; (4). an increase in nominal interests rates, ranging from 3 to 6 percentage points; and (5). its decision to allow oil-related domestic prices to reflect the full increase in the import price of oil.⁸⁴ To promote economic recovery, on the other hand, Chun's economic move was to recall the technocrats responsible for the rapid economic growth under Park.⁸⁵ He appointed a former Deputy Prime Minister and Minister of EPB, Duck-Woo Nam as Prime Minister, and named the former president of the Bank of Korea, Byong-Hyon Shin, as Deputy Prime Minister and Minister of the EPB. In 1981, these technocrats wanted to prepare Korea for an economic "second Take-off." Since past economic growth was due primarily to the high performance of exports, the technocrats once again placed heavy emphasis on exports. To a certain extent, increased export activities were responsible for the modest growth in 1981. The wide-range economic policy reforms the Korean government has implemented since 1981 have three interrelated objectives: (1). continued high growth; (2). price stability; and (3). improvement in income distribution.

The policy that the Chun government has chosen to achieve these objectives was to make greater use of the market mechanism and the advantage of a fully open economy, which were significantly different from that of the Park regime in 1970s. The reform efforts were directed towards promoting competition in all sectors of the domestic economy and liberalizing Korea's external policies. What the government hoped to achieve was clear. However, a crucial component of the government stabilization programme, met bitter resistance. For example, wage disputes turned into riots. In the meantime, the highly leveraged Korean firms, squeezed by tight credit and a weak export market, began to lay off workers. With unemployment rising and inflation unabated, labour unrest became widespread and added to the political and social tension in the country.

⁸³ Samuel P.S. Ho, *Ibid.*, p. 1185.

⁸⁴ For more details, see, EPB(1980), *Economic Management Plan in 1980*, February,

⁸⁵ Dae-Sook Suh(1982), "South Korea in 1981: The First Year of the Fifth Republic." *Asian Survey*, Vol. 22 No. 1 p. 112.

In this situation, the Fifth Five-Year Plan for Economic and Social Development, 1982-1986, was formulated. The plan was the core of the Chun regime's development strategy. The plan projected an average annual growth of 7.5 percent over the next five years from 1982 as it envisages the GNP rising from the current level of U.S. \$60 billion to U.S. \$90 billion by 1986, and the rise of per-capita GNP from the current level of \$1,500 to \$2,000 by 1986. It also included "a shift toward increased social development and improved income distribution." The strategy for achieving this ambitious economic goal included: (1). stabilizing economy; (2). liberalizing and privatizing the economy from government control; and (3). increasing social development benefits. The tactic for implementing these strategies was to concentrate on restructuring the economy during the first two years and to launch the "second take-off" of the economy in 1983. During the first two years of the plan period, policy focused on the resolution of the structural problems that accompanied rapid economic growth in the past. Domestic prices have become quite stable in recent years, reflecting the nation's positive response to the highest priority placed on price stability. By building upon such stability, Korea has successfully managed to increase its exports steadily. This, in turn, has enabled the Korean economy to regain a high rate of growth, although the world economy has not yet fully recovered.

With a self-confidence, the Chun regime readjusted the Fifth Plan. The Revised Fifth Five-Year Plan(1984-86) was intended to readjust policies in ways which reflect recent changes at home and abroad: " Since the principal goals of the original plan have been achieved earlier than we had projected, this revised plan, rather than being oriented to quantitative targets, emphasizes institutional reforms and structural improvements that should be made in order to strengthen the nation's growth potential. In every corner of this plan, efforts would be found which try to make a major shift in the style of economic management toward relying more on competition and the mechanism of the market and to solve the problems of imbalance."⁸⁶ While retaining the basic emphasis on stability, efficiency, and balance, the revised plan sets the following priorities: Firstly, while maintaining economic stability, the basis for developing a self-reliant economy would be strengthened;

⁸⁶ EPB(1983), The Revised Fifth Five-Year Economic and Social Development Plan, 1984-1986. Republic of Korea. p. !!!.

Secondly, the development of technology-oriented industries would be spurred in order to raise the nation's level of technology closer to those of the industrialized countries and thus to enable Korean industries to compete better in the world market. Thirdly, social overhead capital and other public facilities would be expanded and upgraded, and social development projects would be enlarged in order to enhance the quality of life. Finally, governmental functions would be carried out in such a way as to best meet changing socio-economic conditions, and administrative practices would be improved to enhance the quality of service as well as credibility.

(3). Social Conditions.

One of the proud slogans of president Chun's Fifth Republic was that he would uphold "justice" and uproot corruption. Chun even named his political party the DJP, making a stern promise to eradicate corrupt practices from politics. However, a series of financial scandals, which had all the political trimmings of influence peddling and had political ties that ultimately led to the family of President Chun himself, damaged this slogan. Political influence was the key to the Lee-Jang scandal, the Myongsong scandal⁸⁷, and the Yongdong scandal.⁸⁸ For example, the Lee-Jang scandal involved Yong-ja Chang and her third husband, Chul-Hi Lee. Chang, related to President Chun's wife, was a curb money market operator who manipulated nearly \$ 1 billion, approximately 17 percent of Korea's entire money supply. She made cash loans on the curb market to industrial firms, demanding many times the value of the loans in promissory notes and promising in turn that the notes would not be resold or discounted on the market. In this way Chang, who made the first loan of \$3 million in the Spring of 1981, was able

⁸⁷ The Myongsong Corporation, a real estate developer, amassed huge assets(\$200 million) in three years by means of financial fraud, bribery, and tax evasion. Ja-Jung Yun and 15 other government and bank officials, together with the Myongsong leaders, were indicted. Yun was alleged to have helped the illicit Myongsong operations while serving as Minister of Construction in the first Chun cabinet. The government prosecutors took great pains to deny any implications of President Chun's father-in-law in the scandal.

⁸⁸ The government arrested the president and 18 other officials of the Chohung Bank in connection with this scandal, i.e. illegally extending a bank payment guarantee to the Yongdong Development Corporation and its subsidiary, while floating \$230 million worth of commercial papers.

to amass the staggering sum of \$988 million in notes by April 1982. By the time the papers and notes were sorted out, it became obvious that Chang had blazed a trail a mile wide through the curb money market. Two large industrial companies were declared bankrupt and a total of twenty-nine people were indicted.

The public at large showed a degree of cynicism about the slogans of "justice", "democracy" and "welfare Society" for which the party stood. An opposition legislator asked: "why is it that under the government which claims to be the most powerful one and to attach the highest priority to the establishment of a just society, we have seen so many big scandals and external crises of the worst kind?"⁸⁹ The public questioned whether their government was willing or able to detect and uproot economic and social injustices. More seriously, they tended to suspect that there might be a systematic collusion between economic and political irregularity. No matter how diligently and honestly they worked, they were constantly left in a state of bewilderment. They were uncertain about the moral fibre of their political and economic system, and they lost a sense of normality and balance in their private and public affairs. With their frustrations unresolved, they could only hope that they would be able to start a little more peaceful, democratic, and prosperous life in the future.

B. The Development of NWP Scheme Under the Fifth Republic, 1980-1985.

(1). Policy Debates.

The Chun regime of Fifth Republic learned a good lesson from the previous Park Regime, that is, a one side adherence to rapid growth could not alleviate social frictions. Therefore, apart from the Park's state goals, i.e., "economic development" and "anti-communism", the Chun regime emphasized "welfare and justice" as its basic goals.

⁸⁹ Dong-A Ilbo, 25 October, 1983.

In connection with the preparation of the Fifth Plan, the government organized the Economic and Social Policy Council. The Council which was supervised by the KDI had ten classified meetings from April to August, 1980. The Social Security Group of the Council, at first, examined the then prevailing conditions of social security in Korea, and then raised specific recommendations to the government. In relation to the NWP programme, the Group had to solve these two problems:⁹⁰ (1). Whether the pension scheme for workers was needed or not; (2). If needed, how the NWP programme should be readjusted in relation to the new socio-economic environments.

The Group members were on the whole of the same opinion. They concluded that the NWP programme should be implemented for the expansion of pension coverage to the workers. They agreed that some items, such as the connection with the Retirement Allowance system, benefits level and contents, coverage and its method, fund management and the means to utilize the fund, should be revised in a more realistic way.⁹¹ Among the group members, however, there were some split opinions in connection with the implementation timing. Professor Jong-In Kim argued that, except for the Medical Insurance programme, all pension programmes under consideration seemed like a plausible excuse for the Fifth Five-Year Plan. He argued that the government should concentrate on the normalization of the existing Medical Insurance programme (which is full of inconsistencies), and then other pension programmes should be considered as a long-term plan in relation to the development of the Medical Insurance plan.⁹² On the other hand, Joung-Hyun Whang, the representative of the Korean Employers' Association, insisted that the unemployment Insurance programme should be implemented prior to the NWP programme. This was their consistent opinion. He emphasized that the implementation of the unemployment Insurance scheme would systematize the Korean labour market and improve productivity.⁹³

At this time, Paul Fisher, foreign adviser and the NWP proposer in the early 1970s, examined the NWP programme as a whole and adhered to his

⁹⁰ The KDI(1980), The Economic and Social Policy Council for the Formation of Fifth Five-Year Plan--Discussion Materials and Contents. September.p. 438..In Korean.

⁹¹ Ibid. p. 418.

⁹² Ibid., p. 455.

⁹³ Ibid., p. 458.

opinion that even if the Korean government implemented the scheme, it would not be confronted with the serious problems which most advanced countries have faced with welfare crises.⁹⁴ In relation to the implementation of the NWP programme, however, he presented several policy suggestions.⁹⁵

Firstly, the early implementation of the NWP programme should be considered because of the population trends and the rise of disabled in accidents not related to work. However, early implementation does not necessarily have to proceed *en bloc*. Certain items could be phased in over a period of time as long as such a policy does not destroy the integrity of the system.⁹⁶

Secondly, some contents of the NWP Law should be improved: (1). The abolition of Class II voluntary insurance and its incorporation into the compulsory Class I insurance coverage should be given early consideration; (2). All income limits in the Act should be revised and would be better expressed in a percentage of the average wage in a preceding year. Therefore, they should be set at a level which extends compulsory coverage to those workers in most need of the protection of the law; (3). The minimum entrance age should be raised to 21 years. This is because most men in the age group 18-20 were serving in the armed forces, while most women get married at that age without returning to work, and would hence never acquire the necessary 20-year credit for the benefit.

Finally, he emphasized the importance of support from the public, and leaders of industry and labour.

In this process, the social development plan for the Fifth Five-Year Economic and Social Development, 1982-1986 was formulated. The plan, once again, contained the implementation of the NWP programme on a step-by-step basis in addition to the expansion of the Medical Insurance coverage from 33 percent point in 1980 to 57 percent in 1986. However, many people were in doubt whether the government really intended to implement the programme or not, having regard to the economic situation at that time as we mentioned already. Although the Korean economy

⁹⁴ Paul Fisher(1980), Korea: Social Security in Korea in the Eighties, Seoul: The KDI, Consultant Paper Series No. 14. pp. 34-40.

⁹⁵ Ibid., pp. 41-47.

⁹⁶ Ibid., p. 228.

recovered enough to achieve a better performance than most other industrialized economies in 1982, it fell far short of the projected target of the Fifth Plan, which envisaged a 7.6 percent annual growth rate. World trade in 1982 did not expand as anticipated, and Korea's export trade was stagnant, with a 4.8 percent growth rate in 1982. Korea's foreign debt in 1982 was the largest in Asia and the fourth largest in the world.⁹⁷ The less than sanguine economic performance and the worldwide economic recession forced the Chun regime to reassess its major goals and to readjust the targets of the Fifth Plan. To reflect these and similar changes, the EPB set up a task force, consisting of eighteen separate teams working within different areas of the government, to reevaluate the goals of plan. As a result of this reassessment the Chun government adjusted the priorities and projections of economic performance for the Plan's remaining three-year period to 1986.

The Revised Fifth Five-Year Plan of 1983 postponed the NWP again to next five-year plan. Instead, during the period of postponement the government should complete the preparations for the implementation of NWP programme. At this time the government was worried that if the current ceiling on benefits and the contribution rate were not changed, the pension funds would soon be exhausted. Therefore, the contribution rate and benefit level should be closely coordinated.⁹⁸ To this end, the Revised Plan decided that a planning group would be formed composed of representatives from the concerned administrative agencies and the research community to study this issue during the plan period. The planning group were to analyze changes that had taken place since the NWP Law was enacted in 1973. They were to focus on potential pension system problems, such as those that have imposed a serious financial burden on the advanced countries.⁹⁹ After these preliminaries, the research team were to develop a self-financing programme which meet the needs of the public in an affordable way. They were also to devise to a means of coordinating the pension programme with the Retirement Allowance programme and other

⁹⁷ External debt was estimated at US \$ 37.3 billion in 1982 and projected to reach between US \$ 64.5 and US \$ 49.0 billion by the end of 1986, and debt service ratio in 1982 reached a record 14.9 percent. See, Far Eastern Economic Review, 4 August, 1983. pp. 40-41.

⁹⁸ The EPB(1983), The Revised Five-Year Economic and Social Development Plan, 1984-1986. Republic of Korea. p. 105.

⁹⁹ Ibid., pp. 105-106.

related programmes. This would pave the way for the implementation of the NWP program on a step-by-step basis.¹⁰⁰

At this time, on the other hand, the MOHSA readjusted their own plan and divided the development of the pension programme into three stages.¹⁰¹

(1). The First Stage(1986-1991): (a). The pension programme should be implemented in 1986. The coverage of this system should be applicable to firms employing more than 30 workers in the first stage, and then should be expanded into those in enterprises with 10 or more employees by 1989; (b). Together with the implementation of pension programme, the Retirement Allowance System should be amended from compulsory to voluntary regulation and then should be consistent with the pension programme. This is because the Retirement Allowance System imposes a heavy burden on the small and medium size companies as well as not giving effective protection to the employees. However, the Retirement Allowance should be guaranteed by law in case the employee is dismissed against his will within 10 years; (c). In the early stage of implementation, the contribution rate should be set at 5 percent of monthly income and then should be increased gradually to 1 percent every 3 years and finally 8 percent after 1995; (d). To simplify the complicated administrative system of social security, the NWP programme and other special pension schemes such as the Civil Servant Pension, the Military Personnel and the Private School Teachers' Pension should be combined into the National Pension System and one central administration, for instance, the Bureau of National Pension in the MOHSA, should operate all the different insurance schemes. Unless the system was fundamentally reformed, no matter how efficient the administrators may be, the programme could not be executed effectively. However, there was the problem of the relationship between the various parts of the system. Not only did the levels of contribution and benefits vary widely between the different schemes, but the legal jurisdictions were different. Therefore, in the initial year, the dual fund system-- the NWP Fund and the Special Pension Fund which is unified by the independent special pension funds-- should be maintained.

¹⁰⁰ Ibid.

¹⁰¹ Kwang-Chan Lee(1984), A Study on the Implementation of NWP Program,

The Social Security Committee, The MOHSA. pp. 35-39.

(2). The Second Stage(1992-1996): To keep the coordination and balance of the differences between the NWP programme and special pension schemes, the preparatory work should be concluded by 1994, and then the dual systems should be completely unified as a National Pension Programme by 1995. At the same time, the scope of coverage should be gradually expanded to the employee and the self-employed during this period.

(3). The Third Stage(1997-2001): The compulsory coverage should be expanded by 2001 to cover all employees as well as a certain level of the self-employed. Moreover, the contribution of the self-employed whose income is below the minimum standard should be exempted and, instead, the government should subsidize for his contribution.

(2). The Establishment of Preparatory Committee.

In accordance with the Revised Fifth Five-Year Plan proposal, the Preparatory Committee for the NWP programme was established on 16th of August, 1984. The purposes of the preparatory committee, therefore, were to deliberate and coordinate collectively on the essential issues with regard to the enforcement of the pension programme. The organization of the committee was a three-layer system: the Preparatory Committee, the Working-level Coordinating Committee, and Working-level Groups. The Preparatory Committee was composed of the Minister of Health and Social Affairs as a chairman, Deputy Ministers of seven related Departments,¹⁰² two delegates from the Employers' and the Employees' Associations, and five commissioners. The second Committee was made up of the Assistant Deputy Minister of the EPB as a chairman, the Chiefs of Planning and Management of six related Departments, five representatives from the Employer's and the Employee's Association, and six commissioners. The third Committee was divided into two sub-groups: the First Working-level Group was composed of the Director of Social Insurance Bureau as a group leader, civil servants of related Departments, and pension experts. The Second Working-level Group was composed of the Director of Economic

¹⁰² Seven departments are: EPB, Finance, Defense, Education, Labour, MOHSA, and Government Administration.

Planning Bureau as group leader, civil servants of related Departments, and pension experts.

Even though the organization of the Preparatory Committee was enormous, the Committee was little more than a name except for several working-level talks. They only examined the national pension model and entrusted the KDI with the socio-economic effects of the NWP implementation.¹⁰³

6.4. The Role of Interest Groups.

All voluntary actors except the business groups were insignificant during this period. This was because, as we mentioned already, the socio-political environments did not allow their activities under the bureaucratic-authoritarian regimes. Since the NWP programme was excluded from the political issue, the urgent matter of concern and interest for the Press was political democracy. The FKTU, at this time, was attacked on the both sides, i.e., by the government and labour itself. As we mentioned already, government and business leaders effectively resisted most union-formation, and numerous legal restrictions and overt repression of labour mark the entire period. On the other hand, the FKTU lost its credit with labour. Against the state sponsored FKTU, the Korean labourers organized their own autonomous organizations promoting class consciousness and thereby increasing conflicts between FKTU and these autonomous labour organizations. On account of the internal friction, the labour unions remained a nominal organization, even when unionization increased dramatically in the late 1970s and mid-1980s. Therefore, the FKTU had no incentive to take their battle against the business groups' statements and the government's new policies even though these were directly connected with the labourers' interests.

Exceptionally, the business organizations looked after their own interests under the patronage of the government. The large domestic business conglomerates(*chaebol*) were major participants in, and beneficiaries of, the

¹⁰³ The MOHSA(1987), *Ibid.*, p. 38.

new strategy of transforming the economic structure from light to HC industries. However, unlike the Japanese conglomerates(zaibatsu), the Korean chaebols were indifferent to their workers' welfare even though the growth process was similar.

In the Japanese case, at first, the paternalistic industrialists began to experiment with the idea of a company pension within the company to promote the workers' loyalty to their company. Therefore employers--both public and private--increasingly provided for the needs of their own workers, either directly, or by encouraging them in self-help through mutual aid associations and so on.¹⁰⁴ Then, the government intervened and compelled the private and public sectors to adopt social insurance schemes in order to promote national unity and conserve national resources.¹⁰⁵ Since the Zaibatsu decisions were bound to have a major effect on the economy as a whole, party leaders and top officials were inclined to listen to their views. In the meantime, when government policy promised to have general advantages for the country the Zaibatsu actively supported it. They realized that the government shared the same goals as they did and officials of Zaibatsu felt that what was good for business was good for the country. As a result, most of the important administrative groundwork for the Japanese social policy of today was established during the tumultuous decades of unrest and reactionary ultra-nationalism that preceded the Pacific War.

On the contrary, the Korean chaebols have a different way of thinking in relation to social policy. Even though they sought to pattern their country's development on the experience of Japan, this emulation did not extend to copying Japanese efforts in social policy. Because many Korean businessmen worried about the Japanese situation, like many other industrialized countries, the relative proportion of government activities in the economy has increased significantly, mainly as a result of the growth of social security expenditure.¹⁰⁶

In relation to the NWP programme, they, the business associations, adopted all the means in their power to defer the NWP programme. They

¹⁰⁴ Martin Collick(1988), *Ibid.*, p. 205.

¹⁰⁵ Richard Rose and Rei Shiratori(1986), "Introduction: Welfare in Society: Three Worlds or One?" In Richard Rose and Rei Shiratori(Eds.), *Ibid.*, p. 6.

¹⁰⁶ Yukio Noguchi(1986), "Overcommitment in Pension: The Japanese Experience," in Richard Rose and Rei Shiratori(Eds.) The Welfare State East and West. Oxford University Press. p. 180.

kept in contact with the government authorities, while they appealed to public opinion. They issued statements of their point of view.

At first, the Korea Employers' Federation presented a statement under the title: "The Statement about the Introduction of NWP Programme," in May, 1979. The statement raised the following five points at issue:

Firstly, the then present economic condition in Korea was much worse than that of the year of 1973 when the NWP programme was enacted.

Secondly, from a social security policy point of view, the unemployment insurance scheme was much more urgent than the NWP programme for the following reasons: (1). The sharp fluctuation of industrial structure brought about decaying industries. Therefore, some systematic measures which were guaranteed job-conversions and re-employment for the workers of those companies' were urgently needed; (2). To obtain the desired results of "The Employment Security Network" which was under consideration by the Office of Labour Affairs, the job training programme and the unemployment insurance programme should be combined as a Tripartite system; and (3). Nowadays, it is much more realistic that the government should guarantee a stable source of income for the people who are underemployed or frictionally unemployed than the NWP programme which is a kind of saving scheme to protect income earners against future adversities.

Thirdly, the early introduction of the NWP programme would act so as to reduce the workers' disposable income. As for the workers, stabilization of their livelihood and wage increases were the most urgent. In view of the then current income levels and inflation, the NWP programme would find difficulty in meeting with the workers' approval because of the increase of the immediate burden for the security 20 years hence.

Fourthly, as regards the people as a whole, the present NWP programme would be contrary to the principle of equity for the following reasons: (1). According to the Article 28 of the Labour Standards Law, companies with 30 or more employees were required to implement the Retirement Allowance scheme. The benefits at the international level were however far better than those of the NWP programme; (2). Except for the Retirement Allowance system, these workers are benefited by the Medical Insurance and the Industrial Accident Compensation Insurance. In comparison with the self-employed, the farmer and the fisherman, and the small company workers who are excepted from these programmes, the company workers already receive enormous welfare benefits. Therefore, if the NWP programme were

to be implemented for these workers, it would be contrary to the principle of social security.

Finally, When we look at the population structure, the NWP programme which provides for the workers' old age, was not so pressing for the following reasons; (1). For the present, the ratio of the old age population(60 or more) is no more than 4 percent; (2). The ratio of the old age population will expand to 7.8 percent in 1991. When we consider the development of pension programmes in advanced countries from the population structure point of view, Korea will reach the early stage just at that time.

For the above reasons, the statement proposed that the NWP programme should be postponed at least two or three years until the essential prerequisites such as the price stabilization and the improvement of income levels were sufficient.

In the meantime, the Korea Employers' Federation invited professor Gi-Do Woo to a symposium on "The Basic Direction of the Social Security System and the NWP Programme--In Relation to the Policy Priority" on 18th of May, 1979. At this symposium, Professor Woo spoke for the view of the business associations. The main points of his submission were as follows: (1). During the transition period of the Korean economy and inflationary spiral, the NWP plan should not materialise; (2). Why should the NWP programme take priority over the unemployment insurance scheme?; (3). The present Retirement Allowance System which is threatening the industrial existence was incompatible with the NWP programme.

The following day, the Federation of Korean Industries also presented the same view point on behalf of the Korea Employers' Federation.¹⁰⁷

In relation to the implementation of the NWP programme, one of the main matters of concern and interest of the business groups was the matter connected with the Retirement Allowance system. As Paul Fisher commented: "the amendment or elimination of Article 28 of the Labour Standards Law and renegotiation of the existing retirement undertaking should be a condition for the employers' consent to the implementation of

¹⁰⁷ See the Federation of Korean Industries(1979), Annual Report on the FKI's Activities, pp. 212-215. In Korean.

the NWP programme."¹⁰⁸ Article 28 requires the employer to establish a Retirement Allowance System "Which provides at least 30 days average wage for each year of continuous service" to workers with at least one year of service. The problem is that the Labour Standards Law does not require the employer to set any funds aside or to reinsure his contingent liabilities. As a consequence, many cases of default have occurred. To make matters worse, the employers suffer from a self-inflicted problem. Under the leadership of banks and government-owned enterprises, they agreed in a period of rapid growth of their firms, of low wages, and labour shortages to grant the workers a retirement allowance based not on the statutory one-month pay for each year served, but on a steadily increasing number of months of wages for each succeeding year of service. According to the memorial of Korean business associations, 46.7 percent of the member firms apply progressive rates, according to the duration of service for the calculation of the severance lump-sum. Such promises create difficulties for firms under different economic and labour market conditions(some of them facing the retirement of an appreciable number of long-service workers at any one time), that are compelled to pay a lump sum based on inflated wages. In these circumstances, without the amendment of the Retirement Allowance system, the business groups could not consent to the implementation of the NWP program. In this connection, the five related business associations¹⁰⁹ presented a written opinion under the title: "The Introduction of NWP Program" in July, 1979. They urged the amendment of the Retirement Allowance System and suggested the following solutions:

(1). The parts of old-age and unemployment insurance under the Retirement Allowance System(the legal lowest limit under the Article 28) should be substituted for the NWP programme.

(2). The portion of meritorious compensation under the Retirement Allowance System(the progressive portion above the legal lowest limit under the Labour Standards Law) should be a matter for companies themselves as a part of the labour management.

¹⁰⁸ Paul Fisher(1987), "Social Security in Korea in 1980," in Il Sakong(ed.) Human Resources and Social Development. Essays on Korea's Fifth Five-Year Plan. Vol. II, KDI. p. 216.

¹⁰⁹ The five associations are: The Korea Employers' Association, The Federation of Korean Industries, The Korea Chamber of Commerce and Industry, The Korean Traders Association, and The Korean Federation of Small Business.

(3). The Retirement Allowance which is already guaranteed should be paid by the company. The terms of payment should be as follows: 1). The amount of Retirement Allowances should be the rate of secured reserve for retirement allowance until the introduction of the NWP programme multiplied by the average income at the time of retirement; 2). As an interim measure, the Labour Standards Law and the Tax Law should provide for the intermediate liquidation, and if needed, the company should put the retirement allowance to practical use by mutual agreement; 3). When the company pay out a retirement allowance, the payment of shares or company bond should be fostered by reason of the relief of the company's financial difficulty as well as the contribution of the employee's stock ownership and amassment of the workers' wealth. The other suggestions are nearly the same as that of the previous suggestions and only added a fifth wheels to a well-assorted stock.

On the other hand, the Ministry of Labour under the supervision of the KEF invited several related institutions and experts, to a symposium on "The Improvement of Retirement Allowance System," held on 23rd of April, 1984. At this symposium, the Executive Director of KEP, Jung-Hyun Whang, expressed the following seven items of business associations' views:

Firstly, Article 28 of the Employment Standard Act should be operated flexibly. Thus, the payment of a retirement allowance should be left to the employer's discretion in case of the employee who is compulsory retired because of a reduction in personnel and also in case of the voluntary retired employee who has been employed for less than three years.

Secondly, in the case of a period of military service or suspension from service at his own initiative, a certain ratio(e.g. 5%) of the relevant period should be included in the length of the worker's service which is the basis of his retirement allowance assessment.

Thirdly, when a worker after having served a certain period of time(e.g. 5-10 years) wishes an intermediate pay-out for a real necessity such as a housing purchase, it should be allowed by mutual agreement.

Fourthly, a special deduction for retirement allowance should be promoted and the retirement allowance should be exempted from taxation.

Fifthly, allowing for the retirement allowance as a deferred liability, the accumulative limit of appropriation should be rationalized and the total amount should be admitted as a company expenditure.

Sixthly, to guarantee the retirement allowance by the small and medium enterprises, friendly societies should be established.

Finally, when the NWP programme is implemented, the retirement allowance system should be amended to merge with it. If the NWP programme were implemented without amendment of the retirement allowance system, a heavy financial burden would be imposed on the business groups. Therefore, the present retirement allowance system should be amended to a voluntary system and be conducive to meritorious compensation for the long-service employee.

However, the Secretary General of FKTU, Young-Jun Lee, made the Labour Unions' position clear with a different opinion. Even though the Labour Unions raised several points, the unions were unwilling to lose Article 28 of the Employment Standard Act and the pension agreements they had negotiated, which represented a major tangible benefit they obtained for their membership. Therefore, he asserted that the present retirement allowance system should continue to exist without regard to the NWP or the employment insurance system. Consequently, the solution of the retirement allowance disagreement is a precondition of the NWP being implemented.

6.5. Conclusion.

In this chapter, we examined the development of the NWP programme during the period of 1974-1985. We focused on the postponement of the NWP programme in relation to the Korean national development strategy and political, and socio-economic environments. On examination, this chapter demonstrates that several reasons were compounded by the NWP postponement.

Firstly, even though the pension policy was initiated with a dual-purpose, that is, a socio-economic palliation and an economic acceleration, the programme was postponed by the political strife among policy-makers in the process of the formation of industrial restructuring strategy. As we have seen in Chapter Four, the MOHSA took up the study of pension policy since the early 1960s. However, study of pension policy began in earnest in the early 1970s, when the economic policy-makers came to understand that this policy need not work at cross purposes with the objectives of development

planning and, further, integrated with the development plan, could in effect help these objectives. On becoming aware of this, the KDI suggested the pension policy to the President and included the policy to the industrial restructuring strategies. However, President Park and his staffs could not accept the EPB's restructuring proposals. As a result, the EPB which had taken a major role in national development policy-making, was excluded from the policy-making process of the reorganization of the industrial structure and the economic emergency measures which were the main policy measures leading to the postponement of the NWP scheme. In this process, the NWP programme was postponed in the early 1974.

Secondly, Korean policy-makers could not maintain a consistent social security policy. As we have examined in section two, the original government policy priority was that the NWP programme took precedence over the medical insurance scheme even though the latter was enacted in 1963. This is because a part of the reserve funds under the NWP scheme could be utilized to invest in hospitals and other medical facilities in rural and local communities.¹¹⁰ It was drastically changed again in the mid-1970s. Further, it was reported that the original Fourth Five-Year Plan did not contain this scheme, but President Park abruptly ordered the introduction of the medical insurance as one means of social security. As a result, the NWP scheme was naturally neglected by the government. We can explain two aspects of this phenomenon. First, as a government agency with the jurisdiction over social security, the MOHSA was politically weak, not only in the broad area of Korean politics but also in their respective political camps. In addition, the Korean bureaucrat was seen as pre-eminently responsive to political authority, especially that of the President. As a result, the MOHSA could not adhere to its policy. The second reason is that, in an authoritarian organization, policy shifts do not take place through a series of relatively small changes; instead, policy moves in leaps and bounds and changes occur in grand style.¹¹¹ Innovation results from a sudden burst of decision. Therefore, any new Minister does not develop and carry out the programmes which his predecessor initiated incrementally and pushed continuously. This tendency was especially conspicuous at the ministerial level. As we can see from Table 6-3, the average tenure of the Minister of Health and Social

¹¹⁰ Chong-Kee Park(1975), *Ibid.*, p. 50.

¹¹¹ Lindblom, C.E.(1959), "The Science of Muddling Through," *Public Administration Review*, Vol. 19 pp. 84-86.

Affairs Department during the last ten years was about one and a half years too short. Every time the Minister changed, the basic policy of the outgoing Minister was also changed.

Table 6-3: Tenure of Minister of Health and Social Affairs(1973-85).

Name	Tenure
Kyong-Ho Lee	June 1973 - Dec. 1973.
Chae-Pil Ko	Dec. 1973 - Dec. 1975.
Hyun-Hwak Shin	Dec. 1975 - Dec. 1978.
Song-Chol Hong	Dec. 1978 - Dec. 1979.
lee-Chong Chin	Dec. 1979 - Sept. 1980.
Myoung-Ki Chon	Sept. 1980 - May 1982.
Chong-Rye Kim	May 1982 - Feb. 1985.

Thirdly, the Korean governments and policy-makers confused the ends with the means in the development strategy. The evolution in thinking regarding the means and ends of development are obviously pertinent to any discussion of the role of social security in the on-going process of social and economic change in Korea. Efforts to raise levels of living were to be seen as both the objective of development and also its instrument. The improvements in the quality of living were important objectives in themselves and were not to be seen as merely aids to higher economic output. Looked at from this perspective, economic growth could be regarded as the instrument and better living standards as the objective.¹¹² Therefore, the ultimate objective of development must be to bring about sustained improvement in the well-being of the individual and bestow benefits on all. These objectives are both determining factors and results of development; they should therefore be viewed as integrated parts of the same dynamic process and call for a unified approach.¹¹³ These were the objectives and the strategy as defined at the beginning of the Fourth Plan. The Korean government changed it, from a Fourth Plan(1977-81), into the Five-Year Economic and Social Development Plan to which, among other things,

¹¹² See, Singer, H.W.(1968), "Social Factors in Development: An Overview With Special Emphasis on Social Security," in E. M. Kassalow(Ed.), The Role of Social Security in Economic Development. U.S. Department of Health, Education and Welfare. Research Report No. 27. p. 21.

¹¹³ U.N. Research Institute for Social Development: Social Development and the International Development Strategy(1979). p. 2.

policy concerns for distribution and equity were added. Changes in policy objectives, however, did not bring about substantial changes in the development strategies adopted in the previous plans for two reasons: (1). In Korea, the planning and development of social security measures was far from being fully integrated with the country's over-all plan which reflects the particular nature and structure of social security schemes and tells little of their significance in the life of the nation or of their relationship to development. This is because economic pragmatism has been already definitively superseded at the theoretical level; (2). The uncertainty within government was another reason. To be sure, a social security scheme requires considerable resources which are distributed in the form of benefits and affect the operation of economic mechanisms. It follows that the quantitative importance of social security is measured by the volume of its income and expenditure in relation to the national product, and its qualitative importance by the extent of the redistribution of the national product and the size of the population benefiting from this redistribution. Consideration of these factors immediately raise the question whether this amount of resources and the increase in consumption which result from their distribution does not adversely affect the formation and utilisation of capital needed for economic development. Therefore, the Korean governments and policy-makers could not deviate from the basic national development strategy without being convinced that it would lead to sound economic growth. To make matters worse, the social welfare crises in the advanced countries especially Japan, added to the uncertainty of a new development strategy.

The last reason was that a lack of democratization. As we have examined, the Fourth and Fifth Republics were more or less a authoritarian regimes to the extent that the military and their ruling coalitions constituted a dominant institution in politics. This political environment retarded the implementation of NWP programme. As Key and Lenski mentioned, democratic institutions and ideology are very important to the development of social policy.¹¹⁴ Democratic institutions give rise to organised political competition. In light of his analysis of the one-party factionalism common in the South America, Key concluded that single-party politics preclude organised debate on issues,

¹¹⁴ Key V. O. Jr(1946), Southern Politics in State and Nation. New York:Knopf.and Lenski Gerhard(1966), Power and Privilege: A Theory of Social Stratification, New York: McGraw-Hill.

and lead instead to a politics of personality.¹¹⁵ Without competition between organised political parties, the “have-nots” are left with no mechanism for effective political engagement. Political parties compete against one another within a territorial area for the right to govern, and the party with the greatest support forms the governing team. The governing party is made responsive to the electorate’s wishes both by its having secured enough support to have the right to govern, and by the prospect of having to face re-election at some definite period in the future, when its conduct in office will be judged by the electorate.¹¹⁶ Without democratic political institutions, however, this role of elections is unlikely to be fulfilled. In the meantime, the new democratic ideology is significant because it legitimates a major redistribution of political power and national resources in favour of the majority. For Lenski, this increased political equality has led to more social equality because the major electoral demand made on modern political elites has been for a more equalitarian distribution of material goods. Not only does a democratic reform of government respect the autonomy of persons, it provides the incentive for self-development and civic responsibility. Moreover, democracy allows scope for the free competition of ideas in the solution to collective problems, and this is likely to enhance a society’s problem-solving capacity. Moreover, democracy provides a set of procedures in which there is recognition of the equality of persons.

Common arguments about the deleterious effects of authoritarian regimes in Korea parallel these perspective. The constitutions of the Fourth and Fifth Republics provided for an indirect election of the President and the legislative role of the National Assembly was greatly subordinated to the President. Fearing the uncertainty of the outcome of democratic competition, it abolished the already limited democratic institutions and procedures. Therefore, an election was no more than a formal act and political competition was nonexistent in the Korean political process. As a result, the main goal of the parties in Korea was to mobilise the population for policy objectives set by the party leadership rather than to bring together the diverse interests of the mass. The power bloc launched bureaucratic authoritarianism preemptively to exclude the popular masses from participating in the distributional struggle. In this political environment,

¹¹⁵ Key V.O., *Ibid.* p. 307.

¹¹⁶ Albert Weale(1983), *Political Theory and Social Policy*, The Macmillan Press Ltd. p. 179.

interest groups played a secondary role in the politics of the NWP programme. The general public were not organised at all: they did not force their plight on to the political agenda, and policy did not change in response to their demands. The urgent matter of concern and interest to the Labour Unions was political democracy. According to the interest group theory, democracy is important since it provides existing groups with institutionalised means to influence government policy. Without democratisation, political channels could not be sufficiently developed for transmitting the demands of the Labour Unions to the regime. Only business groups were involved in the central issues of socio-economic management, and this had a powerful indirect impact on the postponement of the NWP programme. Nonetheless, a pattern of direct bargaining between the government and business organisations over the NWP policy did not emerge in this period.

Chapter 7. The Revised National Pension Programme, 1986.

7.1. A Point of Discussion.

As we have seen in the previous chapter, welfare policies did not adequately meet the growing need for distributional equity among various strata of the population during the first half of the 1980s, even though the Chun regime emphasized "welfare and justice" as its basic goals. Because of the need to strengthen the foundations of economic stability, fiscal policy was not fully able to carry out its welfare function. In the latter part of the 1980s, the nation would reach a historic turning point in its drive to enter the ranks of the advanced countries and self-propelled growth. The government, therefore, should tried to improve the functioning of the social and economic sectors on the basis of equality and efficiency, enabling the energies of the people to be channelled without waste. The government should also tried to expand the welfare system so that it can meet the demands of social conditions and the needs of the people, particularly of disadvantaged groups, and thus advance overall public interest.¹

In this situation, the Sixth Five-Year Plan was formulated. The basic objective of the plan was aimed primarily at building an advanced economy on a foundation of efficiency and equity and promoting national welfare. These objectives represent the first phase of laying a foundation for the nation to achieve the goal of an industrially advanced state in the 21st century. The background of the Sixth Five-Year Plan was that the Korean government was confident that economic development and the socio-economic environments were matured to the necessary condition. Encouraged by this situation, the government in September 1986 announced a major welfare improvement measure, a basic plan to expand social welfare programmes and to improve income distribution during the latter part of the 1980s.

In this chapter, therefore, we will examine the development that pension policy; and how the NWP programme was readjusted in relation to the new socio-economic environments. In the first section, therefore, we will focus on

¹ Government of the Republic of Korea(1986), The Sixth Five-Year Economic and Social Development Plan, 1987-1991., p. 14.

the background of a re-emergence of pension policy as a political agenda. The tendency for the re-emergence of a pension programme was a reflection of socio-economic environments and the support of political elites for this development strategy. The newly developing, dependent nature of Korea's economy placed major constraints and limitation on the development of a social security policy. During most of the life of the programme, social security policy has been directed by the options and constraints imposed by the national economic situation. Therefore, we offer an interpretation of this development which stresses the conditioning roles of socio-economic developments, the diffusion influence, and the key impetus for policy development in the needs and priorities of the state. According to this analysis, the growing preoccupation of key political elites with the industrialization effort and increasing state activism, combined with the need to coopt labour dissidents, prompt the implementation of the National Pension Programme. In the second section, we then turn to a discussion of the policy-making process of the Revised Pension Programme between the president's announcement on 11th of August 1986 and the enactment of the Revised National Pension Act on 31th of December 1986. The third, concluding section provides a summery analysis of the major arguments and findings presented in this chapter.

7.2. Re-emergence of the Pension Scheme as a Political Agenda.

When drawing up the Sixth Five-Year Plan in 1986, once again, the pension programme emerged on the policy agenda. This was a carry over from the evaluation of the Fifth Five-Year Plan.² As the preceding chapter has shown, the Korean government set the establishment of a welfare society as one of its national objectives and has since being pursuing a welfare policy to distribute the fruits of growth equally among the people during the plan period. This policy has paid off in some areas, but the tight fiscal policy designed to solidify the foundation for price stabilization has resulted in insufficient financial support for welfare programmes. Consequently, the need to narrow income gaps and improve the welfare of

² The Government of Republic of Korea(1986), The Sixth Five-Year Economic and Social Development Plan, 1987-1991, pp. 7-15.

the low-income people could not be sufficiently achieved.

The Sixth Five-Year Plan, therefore, would aim primarily at building an advanced economy on a foundation of efficiency and equity and promoting national welfare.³ In this regard, the agencies concerned with the pension programme became active and proposed tentative revised pension programmes which were based on a review of the changes in the socio-economic conditions of Korea. The specific contents of these proposals will be listed in the Appendix Three. The main related agencies agreed with the implementation of the pension programme during the Sixth Five-Year Plan period, but there were substantial differences among them. In order to adjust these different contents, the related agencies' conference was held with those government agencies and other research institutions which were related with the pension programme under consideration.

They were: (1). The MOHSA (Vice-Minister, Soo-Il Choi; Director of Social Affairs Bureau, Duk-Jo Chung); (2). The EPB (Director of Financial Bureau, Chang-Yul Lim); (3). The Minister of Labour (Director of Labour Standard, Byong-Ik Han); and (4). The KDI (Vice-President, Sang-Mok Suh; Research Commissioner, Jae-Sung Min).

The items on the agenda of this conference were as follows.

(1). The Contribution Rate: a). 2.5 to 10 percent of average monthly income; b). The contribution rate should be increased step-by-step from 2.5% for the four years beginning in 1988, 5% and 7.5% for the next four years respectively, and finally 10% after 2000.

(2). The Readjustment of Retirement Allowance System: Two different options were deliberated and suggested(see, the KDI proposal in the Appendix Three).

(3). The Organizational Structure: The Pension Corporation should be established.

(4). The Survey of Public Opinion: The opinion of the government hearing , academic circle, allied institutions and the press was to be collected on the 12th of June, 1986.

(5). The Publicity Activity: The government would invite the MOHSA correspondents and editorial writers and explain the content of pension programme on 11th of June, 1986.

³ *Ibid.*, p. 26.

As decided at the conference of these related agencies, the KDI invited the associations including the government, press, employee and employer, and the academic fields, to hold a hearing on 12th of June 1986. In the hearing, the KDI announced the results of its research on "The Master Plan and Economic and Social Effects of the National Pension Scheme." which was entrusted by the Preparatory Committee in 1984. The KDI, then, put various participants' opinions together and made a recommendation to the government to enact the pension programme from 1988. In this hearing, the participants also had the same view, only they were concerned about the contribution rate and the coordination with the Retirement Allowance System.

Even though some unsettled controversial points remained, the implementation of the pension programme was an established fact during the Sixth Five-Year Plan period. The only question was when the programme would be implemented. After a while, this question was solved by the president. At the annual summertime News Conference on 11th of August, 1986, President Chun disclosed that:⁴

"The ultimate reason why we all work so hard at our jobs is that we want to enhance the welfare of all citizens. I have already instructed the government party and the administration to work out plans to attain that goal by 1989 at the latest. Details of the plans will be announced shortly. Plans are also being made to have a law enacted so that a minimum wage system can go into effect by 1988 at the latest. At the same time, a comprehensive package of policies is being developed with the aim of more rapidly improving the economic status of the urban poor. Actually, a law was enacted in 1974 to set up a national pension system but its implementation was frustrated by wild inflation.⁵ That was because the real value of the money that could be placed in the pension fund would have been halved in only three to four years since inflation was running at an annual rate 20 percent. Accordingly, it made little sense to save money for use 20 to 30 years later. But now that prices are stable and the economy is

⁴ Newsreview, 16 August 1986. p. 9.

⁵ Most of government documents mentioned that the postponement of NWP program was caused by the high inflation which would cause pension fund insolvency.

strong, it should be possible to put a national pension fund into operation by 1988 at the latest.”

Thereafter, the government, on 1st of September, announced formally that:⁶

“a national pension system would go into force in 1988 along with a minimum wage scheme to promote the welfare of the general public. In 1989, the medical insurance benefits would be available to all people, said the announcement. Since socio-economic conditions have changed since the time of the NWP programme was enacted in 1973, the existing pension law should be revised and updated prior to its implementation.”

Therefore, we will analyze the policy environments that the Korean government decided were the necessary conditions for the implementation of the National Pension programme. For this, we will examine the current policy environments, because social security as a strategic element of socio-economic policy can not be studied without reference to the political, and socio-economic background.⁷

7.2.1. Political Conditions.

This period also served as a political vortex⁸.

First, unlike the previous Korean constitution, the fifth constitution limited the presidential tenure of office to a single seven-year term. Running against the political clock of President Chun's expiring seven-year term in February 1988, events moved briskly. This situation created an optimistic policy-making atmosphere, since President Chun had come to the finish of his term therefore had to finish his public pledges, such as the ideal of a welfare state.

Secondly, political turmoil in Korea was based on the problems associated with lagging distribution of the already increased wealth after pursuing a

⁶ Newsreview, 6 September 1986. p. 4.

⁷ Eveline M. Burns(1956), Social Security and Social Policy, New York: McGraw-Hill Co., p. 269.

⁸ The term is borrowed from Gregory Henderson(1969), Korea: the Politics of the Vortex, Cambridge, M.A.: Harvard University University.

consistent policy giving priority to economic development planning over other goals. The inadequate provision of workers' benefits and the prevalent non-compliance with laws and collective contracts governing these benefits, had been the source of numerous and prolonged work stoppages and strikes in Korea, and had generally exacerbated tensions between workers and government. The reduction of these labour disputes and an improved system of benefits were seen as mechanisms to heighten the productivity and output of the industrial labour force. While the economy is looking up, the basic research question of whether industrialization and the existence of problem pressures are sufficient to cause the development of social welfare is better answered with the recognition that the government is acting as an intermediate variable either to nullify or to boost the development and to decide the direction of that development. In this context, the social insurance system becomes a more important issue which secures a minimum standard of living for all the people.

Thirdly, there are differences of interest and opinion within the government. This is because a functional division of responsibility takes the situation of a single social group and divides it up between a number of departments and agencies. In some situations, therefore, separate government departments may be treated as interest groups with a degree of autonomy pursuing their own line. This patterning of the administrative structure was clearly evident with regard to the postponement of the NWP programme during the period of the 1974-1985. However, this policy environment within the government changed at the beginning of 1986. The new EPB leadership of Deputy Prime Minister, Man-Jae Kim, who was a former president of KDI when the NWP programme was enacted in 1973, plus the Minister of Health and Social Affairs, Hae-Won Lee who had long experience as a professor as well as a politician, were enthusiastic about the implementation of the pension programme. According to Dr. Chong-Kee Park, especially, Dr. Kim (when he had an informal talk with experts) expressed his opinion that he would, by all means, implement the pension programme during his term of office.⁹ Through the deputy Prime minister's support, therefore, cross-departmental cooperation was facilitated and the MOHSA and other relevant research institutions such as the KDI took a positive attitude towards preparing for the pension programme.

Finally, since, President Chun came to power, many people interested in

⁹ Interview with Dr. Chong-Kee Park and Dr. Man-Jae Kim.

social security organized academic research institutions, for example, the Academic Association of Social Policy in 1981 and the Korea Institute for Welfare Policy in 1982 and so on, and brought the welfare issue to the forefront of social concerns. Presumably, this trend received impetus from the Chun regime's state goals which were "welfare and justice." At any rate, this was quite unexpected, since associations for studying social problems, socialism, and the like had no chance for growth because of the government's policy of dissolution and the prevention of gatherings and publication. Among these institutions, the Academic Association of Social Policy perhaps could stand out as the most influential intellectual organization. The association led by scholars has infused the idea of social security system into the government as well as the people. For this purpose, the association has published "The Korean Journal of Social Policy," while continually holding academic conferences on social policy. These institutions played an effective part as pressure groups as well as furnished information to the government, so that the government had to listen to some of these vital findings.

7.2.2. Economic conditions.

For the Korean economy, 1986 was a landmark year for several aspects.

First, Korea recorded its first trade surplus in modern economic history. Several factors contributed to this remarkable economic performance.¹⁰ Korea's industrial competitiveness was strengthened as a result of consistent government efforts to stabilize prices and to increase manufacturing productivity. Moreover, since the mid-1980s, the world economy has been experiencing rapid changes with regard to the exchange rates,¹¹ international interest rate¹² and oil price.¹³ Owing to the downward trends of those three variables, the so-called, "three blessing", Korea achieved high rates of economic growth in 1986 as their export rose rapidly,

¹⁰ The current account, which had suffered chronic deficits, ran a significant surplus of US \$4.6 billion.

¹¹ The dollar which began to soften in March 1985, was depreciated on average 26.5% against the currencies of other major industrialized countries in 1986. See, EPB(1987), Economy Survey. Annual Report of the Korean Economy, Republic of Korea. p. 3.

¹² At the end of 1986, the U.S. prime rate and the Eurodollar interest rates stood at 7.5% and 6.4% per annum, respectively, a decline of 1.5 to 2.0% point from the previous year. See, EPB(1987), Ibid.

¹³ During 1986, oil prices verged US\$15 a barrel, down sharply from about US\$28 in the previous year.

helped by the strong Japanese Yen and other favourable world economic conditions.¹⁴ As a result, the government could pursue a flexible monetary and credit policy to provide adequate financial resources for the vigorous growth of the socio-economic development. Furthermore, Korea's external debt, which had continuously increased, began to decline as repayments of foreign loans grew substantially.

Secondly, increased GNP per capita from \$396 in 1973 to \$2,000 in 1985 has been signalling the stability of both industrial workers and business firms to pay pension premiums. The experiences of advanced countries show that the introduction of social security pension systems is essential for the continued stable growth of a capitalist economic system. Despite her growing economic status, Korea seemed rather late in introducing a national pension system necessary for social stabilization.

Thirdly, as we can see in Table 7-1, inflation, which was previously one of the major obstacles to the implementation of the pension programme, has stabilized considerably since around 1982. In 1973 when the NWP Act was enacted, the average annual inflation rate was about 15 percent. During 1986, however, the wholesale price index actually fell 1.5 percent, while the consumer price index inched up 2.8 percent.

Table 7-1. Trends of Inflation, 1972-1986.

(Unit: %).

	1972	1973	1975	1980	1982	1985	1986
Wholesale	8.4	15.1	19.6	38.9	4.7	0.9	-1.5
Consumer	9.1	8.5	23.8	28.7	7.3	2.5	2.8

Sources: EPB, Statistical Handbook, Each Year and EPB(1987), *Ibid.*, p. 30.

Since single-digit inflation in 1982, Korea has been able to maintain price stability for five consecutive years. With success in curbing the annual inflation rate to 3-4 percent by 1982, the foundation for implementing pension systems began to solidify about the mid-1980s.¹⁵

Fourthly, the people's income levels have steadily improved thanks to the nation's remarkable economic growth, as we can see in Table 7-2. Further, thanks to the government's sustained effort to stabilize prices, real wages of

¹⁴ In 1986, the Korean economy grew 12.3% in real terms.

¹⁵ Jae-Sung Min & Byong-Ho Tchae(1989), Korea's Pension System and Major Policy Issues.

KDI Working Paper No. 8920. p. 6.

workers rose at an annual average rate of 7 percent between 1982 and 1986, despite the low national wages rised in the period.

Table 7-2. Wage Increase by Year, 1974-1986. (Rate of Increase: %).

	1974	1978	1980	1982	1984	1986
Normal wage	31.9	35.0	23.4	15.8	8.7	8.2
Increase rate of Consumer price	26.6	16.4	28.7	7.3	2.3	2.8
Real wage	5.3	18.6	-4.1	7.9	6.3	5.8

Sources: EPB(1986), The Sixth Five-Year Economic & Social Development Plan, 1987-1991, Republic of Korea., p. 42; EPB(1987), Economic Survey(1987), Ibid., p. 48; EPB, Korea: Statistical Handbook, Each Year.

Fifthly, the employment structure has changed rapidly. As we can see in Table 7-3, employment in agriculture, forestry and fisheries shows decreasing trends, compared with 50.0 percent in 1973, 45.9 percent in 1975, 34.0 percent in 1980 and 23.6 percent in 1986. The secondary and tertiary industries, instead, rose steadily. Thus, the secondary industry at 25.9 percent, up 1.4 percent from 1985, exceeds the primary industry's share of 23.6 percent for the first time in the history of Korea. With the development of the country towards an industrialized society, wage earners account for most of the employed population. It is now very important to guarantee workers and salary earners a secure livelihood after their retirement, or after their careers are cut short by unexpected accidents.

Table 7-3. Employment by Industrial Sector, 1973-1986. (Unit: %).

	Primary Sector	Secondary Sector	Tertiary Sector
1973	50.0	16.3	33.7
1975	45.9	19.1	35.0
1980	34.0	22.6	43.4
1983	29.7	23.3	49.0
1985	24.9	24.5	50.6
1986	23.6	25.9	50.5

Sources: EPB, Korea: Statistical Handbook, Each Year.

EPB(1987), Ibid., p. 42.

Finally, the national savings ratio reached 32.6 percent in 1986, up considerably from the previous year's 28.6 percent. By contrast, the foreign savings ratio shifted from a positive 3.1 percent in 1985 to a negative 2.7 percent in 1986. This meant that Korea was now able to sufficiently finance its investments with its domestic funds for the first time since the country began its economic development in the early 1960s.

7.2.3. Social Conditions.

The social conditions also were an appropriate and timely reason for Korea to implement the pension programme.

First, the social security system is closely related to the demographic structure. The demographic structure began to change, showing a relatively rapid increase in the population of the aged compared to that found in more advanced countries, as we can see in Table 7-4. The population of Korea is predicted to reach 48.0 million by the year 2,000 and achieve zero growth rate at about 53.1 million by 2030. By the end of 1986, the proportion of the population aged 60 or above was 6.8 percent in Korea. This is estimated to increase to 10.0 percent in the year 2000 and 25.0 percent in 2040 due to the increase in life expectancy resulting from medical developments as well as a zero birth rate. An increase in the proportion of the aged affects both the intensity of the pressure to make some provision for this group and also the real economic cost of doing so.¹⁶ In addition, with the prolonged life expectancy and rapid decline of the fertility rate, the ratio of older people in Korea will rapidly increase in comparison to that of industrialized countries as table 7-5 shows.

Table 7-4: Age Projections, 1973-2040.

(In thousand).

	1973	1986	2000	2040
Total population(A)	34,103	41,569	48,017	53,180
Elderly 60 and over(B)	1,775	2,825	4,781	13,295
B/A(%)	5.2	6.8	10.0	25.0
Dependency rate*	10.4	9.3	6.7	3.2

*: Ratio of population aged 15-59 to population aged 60 and over. Source: KDI estimates, Bureau of Statistics of EPB. Quoted from Min & Tchoe(1987), *Ibid.* p.2

¹⁶ Eveline M. Burns, *op.cit.*, p. 271.

Table7-5:Share of the Over 65 Age Group of the Population. (In Year).

	Share of the over 65 age group		Elapsed years
	5%	12%	
Korea	1993	2020	29
Japan	1950	1990	40
U.S.A.	1925	1990	65
France	1790	1965	175

Sources: Bureau of Statistics of EPB; Japan's Ministry of Welfare(1985), White Paper on Welfare. Quoted from Min & Tchoe(1987), Ibid. p. 2.

Secondly, as for the age structure of the working population, the baby-boom generation of the 1950s began to enter the labour market in the mid-1980s, signifying the need for a mature pension system by the time they became aged. Otherwise, various constraints on social policy measures may appear. Such a system is also needed to maximize accommodation of this over-sized generation through expanding the years of pension contribution(See, Table 7-6).

Table 7-6: Demographic Structure from the Year of the Implementation of the National Pension. (In %).

Year of implementation	1988	1993	2000
Share of insured persons*	74.2	72.7	68.9
Share of pensioners at maturity*	23.8	26.8	28.3

Notes*: Ratio of population aged 15-44 to population aged 15 and over of males.

**:"At maturity" means that 40 years have elapsed since the year of implementation, and the share of pensioners indicates the ratio of population aged 60 and over to population aged 15 and over of males.Quoted from Min & Tchoe,Ibid., p. 7.

Thirdly, the proportion of the nuclear family has increased following urbanization with economic growth, population migrations between industrial sectors as well as regions, and the increase of wage and salary workers. As Table 7-7 shows, the one-fourth of the total households lived with three generations or more under one roof in 1966 while only one-sixth did so in 1980. In other words, the nuclear family was becoming more popular.

Table 7-7. Composition of Household by Type, 1966-1985.

(Unit: %).

	One-generation(A)	Two(B)	Three(C)	Four(D)	A+B:C+D
1966	5.7	67.7	24.0	2.6	2.76:1
1970	6.8	70.0	22.1	1.1	2.31:1
1975	6.7	68.0	19.2	0.9	3.97:1
1980	8.4	69.5	16.7	0.5	4.81:1
1985*	9.5	67.0	14.9	-	-

Sources: EPB(1985), Social Indicators in Korea. *: Dong-A Ilbo, 10 November, 1987.

At the present, however, about 75 percent of the aged have no means of supporting themselves and are dependent upon their children. Accelerated urbanization during industrialization and increase of nuclear families have eroded the traditional social institutions supporting the elderly, creating a major social problem(See, Table 7-8).

Table 7-8: Income Sources of the Elderly.

(In percent*).

	Korea	Japan	Thailand	U.S.A.	U.K.	France
Earning from work	21.8	41.0	42.1	27.3	11.6	5.1
Public pension	1.7	64.6	4.1	82.1	87.7	74.9
Private pension	-	8.4	0.4	27.1	35.5	49.3
Withdrawal from savings	3.5	11.4	6.9	22.0	15.2	6.9
Yield from property	5.5	15.6	8.3	45.1	13.1	11.9
Support from family	78.2	29.8	79.7	2.4	1.7	3.3
Relief or livelihood assistance	2.0	1.7	0.5	3.3	13.6	4.3
Others	3.6	4.8	5.2	8.2	5.7	4.7

Note: *: Percentages are double discounted.

Source: Korea Survey(Gallup) Polls(1984), Life Style and Value System of the Aged in Korea, p. 163.

Therefore, the changing role of the family system inevitably affects social security policy.

Finally, the rapid process of industrialization and urbanization have increased the risks of income loss by raising the rate of accidents and introducing new types of occupational diseases and environmental pollution(See, Table 7-9).

Table 7-9: Trends of Work Injury and Traffic Accident, 1973-1985.

	1973	1980	1985	Increasing rate per year(%)
Work injury number	59,367	113,375	141,809	7.5
Index(1973=100)	100	191	239	
Traffic accident number	48,370	118,883	184,420	11.8
Index(1973=100)	100	246	381	

Sources: Ministry of Labour and Ministry of Transportation.

7.2.4. Diffusion Influence.

Diffusion influence was also very much in evidence. With the proliferation of social security policies throughout the world and with the increasing association of this policy with progressive government, the continued absence of a national pension programme in Korea became a source of some embarrassment to Korean policy-makers. Judging from reports made by the MOHSA and the KDI, the policy-makers indicate their discomfort at the growing isolation of Korea from this international policy making trend. Among the 40 countries whose GNP per capita exceeded \$2,000 in 1985, only three countries, namely Korea and two oil-producing countries, Oman and The United Arab Emirates, had failed to implement social security pension systems.¹⁷ Further, with the 1988 Seoul Olympics as the showpiece, the Korean government made a display of her national fortunes. Due to their concerning about a their international image, the Chun government had to re-initiate a pension programme.

¹⁷ World Bank(1985), World Development Report.

U.S.Department of Health and Human Services(1985), Social Security Programs Throughout the World.

7.3. The Policy-Making Process.

7.3.1. The First Outline: The Conference of Interested Organizations.

After the President's announcement, the MOHSA, as a government agency with jurisdiction over social security, gave an impetus to the examination of how the existing NWP programme should be readjusted in relation to the new environments. As it is already mentioned, the three related agencies made a study of pension programmes and proposed their own programmes. However, there were some divergencies in these proposals. Therefore, the MOHSA invited the related agencies¹⁸ to a conference to be held on 23rd of August, 1986, to adjust these differences.

At the conference, some of the differences were smoothly solved, but others were not agreed upon. The main issues of this conference were matters connected with the Retirement Allowance System and the contribution ratio between employee and employer.¹⁹ In particular, there was a serious controversy between the KFE and the FKTU on the amendment of the Retirement Allowance System. The Korea Employers' Federation(KEF) insisted on the amendment of the system simultaneously with the implementation of the pension programme, but the FKTU maintained that the pension programme should be implemented with the same contribution rate(2.5% each) between employer and employee in the early stage of implementation without the amendment of the Retirement Allowance System; such amendment should be considered subsequently as a long-term policy.

Meanwhile, the academic circle suggested a compromise proposal through re-construction of the notion of the Retirement Allowance System, comprising 50% as a deferred income and 50% as a reward for meritorious service. As a result, the following two alternative proposals were adopted.

¹⁸ The participants were: (1). The MOHSA(Vice-Minister, Director of Planning and Management Office and Director of Social Insurance Bureau); (2). The EPB(Director of Economic Planning Bureau); (3). The Ministry of Labour(Director of Labour Standard Bureau); (4). The KDI(Vice-President and Chief Research Commissioner); (5). The Korean Institute for Population and Health(Vice-President, Hung-Dal Lim); (6). The FKTU(Secretary-General, Young-Jun Lee); (7). The KEF(Vice-President, Nung-Sun Yoon); and (8). Academic Circle(Prof. Rae-Young Park and Prof. Soo-Sik Shin).

¹⁹ The Pension Planning Division(1987), The Administrative Diaries. The Bureau of Welfare Pension, The MOHSA. p. 20.

A. The First Proposal (The Academic Circle's Proposal).

Year	1988	1992	1998
Employee	1.0%	2.0%	3.0%
Employer	1.0	2.0	3.0
From Retirement Allowance Reserve	1.0	2.0	3.0
Total	3.0%	6.0%	9.0%

B. The Second Proposal.

Year	1988	1992	1996	2000
Employee	1.0%	2.0%	3.0%	4.0
Employer	1.5	1.5	1.5	1.5
From Retirement Allowance Reserve	-	1.5	3.0	4.5
Total	2.5%	5.0%	7.5%	10.0%

After the conference, the MOHSA decided to draw up a first outline of the pension programme with reference to the other proposals and the comments and suggestions made by participants at the hearing and conferences. For this, the MOHSA drew a comparison between its own proposal and the EPB (The KDI) proposal which was submitted for the Six Five-Year Plan.

The controversial issues between the MOHSA and the EPB proposals were the matters connected with the assessment methods of the pension account, benefit levels, lump-sum refunds, and utilization of the pension funds.

A. Assessment Methods of the Pension Account: The pension benefits are composed of a basic amount(A) and an additional amount(B). However, the assessment method of the additional amount were different between the two proposals. The benefit levels covered by the EPB proposal were lower than that of the MOHSA proposal.

The MOHSA Proposal	The EPB Proposal
The additional amount should be calculated at the average standard monthly income for the immediately past three years. *Method: $2.4A + B(2.4 + 0.01^n)(1 + 0.04^n)$ the average standard monthly income during the whole insured term. *Method: $2.4(A+B)(1+0.05^n)$

B. The Benefit Levels:

The Monthly Benefit Levels	The MOHSA Proposal	The EPB Proposal
(1). Based on the average wage workers(270,000 Won):		
* Contributed for 20 years	40 % of the last income.	
*25 years	50 %.....	Same
* 30 years	62 %.....	60 %.....
*35 years	76 %.....	70 %.....
*42 years	99 %.....	84 %.....
(2). Based on the above average wage workers: ²⁰		
* 410,000 Won and contributed for 30 years:	55.7 %.....	50 %.....
* 1,000,000 Won and contributed for 30 years:	47.3 %.....	37.9 %.....

C.The Qualification of the Lump-Sum Refund:

The MOHSA Proposal.	The EPB Proposal.
Persons whose insured term is less than 10 years, and when they reach the age of 60.	Persons whose insured term is less than 15 years, and when they loose their insured status for more than one year.

²⁰ The benefit levels of the MOHSA proposal should be relatively higher than that of the EPB proposal.

D. The Organization and Utilization of the Pension Fund:

	The MOHSA Proposal.	The EPB Proposal.
(1). The Component Authorities of the Committee for National Pension Fund Operation: * Chairman * Executive Secretary ²¹	* Minister of the MOHSA. * Director of the National Pension Bureau.	* Minister of the EPB. * Director of the Economic Planning Bureau.
(2). The Method of Fund Employment: ²²	To prevent the encroachment on pension funds from other departments, the funds should be utilized for the investment.	With the object of the utilization of pension funds for economic development capital or industrial investment, the pension funds should be utilized as interbank deposits, trust cash funds and the purchase of profitable securities.
(3). The Utilization of Pension Fund:	A part of the pension funds should be utilized at a low rate of interest in promoting the welfare of the insured.	In this case, the other departments concerned will present a claim for the use of the pension funds for their own projects.

Subsequently, the Division Chief of Pension Planning of the MOHSA as a head of the working group, made a report on the interim findings to his superiors²³ on 8th and 10th of September, 1986 respectively. In these reports, he proposed to adopt the EPB's proposals on the whole, except the component authorities of the Committee for the National Pension Fund Operation. In relation to the component authorities of the Committee for the

²¹ The Ministry of Finance also put up the Director of Financial Management Bureau to stand for the Executive Secretary based on Article 8 of the National Investment Fund Act which prescribed that the Ministry has vested rights over 80 % of the pension funds management.

²² In spite that the Ministry of Construction is not an allied Department, the Ministry planned the utilization of the pension funds for the investment of public housing in the Sixth Five-Year Plan.

²³ The participants were the Vice-Minister, Director of Planning and Management Office, and Director of Social Insurance Bureau.

National Pension Fund Operation, he suggested the following three possible options and reported the relative merits and demerits of each of these options.²⁴

1) Jurisdiction 2) Chairman 3) Members	The Merits.	The Demerits.
<p>(1). <u>The First Option:</u></p> <p>1) The MOHSA</p> <p>2) The Minister of MOHSA</p> <p>3). The Vice-Ministers of related Departments(EPB, Finance, MOHSA and Labour), Representatives of employees and employers and related experts.</p>	<p>a). Maximization of the increase to the fund.</p> <p>b). Facilitation in parallel with other social security programmes.</p>	<p>a). Difficulty in coordination among the related Departments in relation to the utilization of the fund.</p>
<p>(2). <u>The Second Option:</u></p> <p>1). The National Pension Corporation.</p> <p>2). The President should be appointed on the recommendation of the Minister of MOHSA.</p> <p>3). Ministers of related Departments(EPB, MOHSA, Finance & Labour), Representatives of employees and employers and related experts.</p>	<p>a). A fair fund management.</p> <p>b). Emergence from the government-leading impression.</p> <p>c). Maximization of the increase to the fund.</p>	<p>Difficulty in ensuring the government's positive assistance in connection with the utilization of the fund.</p>

²⁴ The Pension Planning Division(1987), *Ibid.*, pp. 25-26 and 30.

<p>(3). <u>The Third Option:</u></p> <p>1). The EPB.</p> <p>2). The Minister of EPB.</p> <p>3). Representatives of the government, employers, employees and related experts.</p>	<p>Easiness of investment to the essential economic projects.</p>	<p>a). Based on the people's misunderstanding in contradistinction to the basic object of the pension programme.</p> <p>b). Impediment to the long-term balance of revenues and expenditures.</p>
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7.3.2. The Second Outline: The Conference of the Consultative Committee.

Thereafter, the MOHSA confirmed a tentative plan and called a consultative committee meeting on the 13th of September, 1986.²⁵ During the conference, the assessment methods of pension account and the qualifications for a lump-sum refund were the main points at issues. The arguments were as follows:

	The Assessment Methods of the Pension Account.	The Qualifications for a Lump-Sum Refund.
The MOHSA View.	If the additional amount is calculated at the average standard monthly income during the whole insured terms, there will be difficulty in calculating the substantial values and the computation itself will be complicated. Therefore, it should be calculated at the average standard monthly income for the last immediate last three years.	If a lump-sum refund is paid one year after disqualification, it will be conflict with to the purpose of the pension programme and will have an adverse effect on the pension funds. Therefore, it should be paid when the insured has reached age 60. The refund for the women insured, however, should be paid one year after disqualification in light of the Korea's special employment structure.

²⁵ The participants were: (1). The MOHSA(Vice-Minister, Director of Planning and Management Office, Director of Social Insurance Bureau and Division Chief of Pension Planning)), (2). The EPB(Director of Economic Planning Bureau), (3). The KDI(Chief Research Commissioner), (4). The Korean Institute for Population and Health(Vice-President), and (5). The academic Circle(Prof. Rae-Young Park).

The EPB View.	<p>If it is calculated at the average standard monthly income for the immediate last three years, there will be several problems arising:</p> <p>a). When the income level is changed abruptly, the problem of equity among the insured will arise.</p> <p>b). The problem of wrongful employment in order to take high pension benefits will arise.</p> <p>c). The personal productivity during the insured period can not be reflected in the pension benefits.</p> <p>Therefore, it should be calculated at the average standard monthly income during the whole insured term.</p>	<p>It should be paid one year after stopping working for these reasons:</p> <p>a). This was already decided by mutual consent between employee and employer in the process of coordination between the pension programme and the retirement allowance system.</p> <p>b). This was already popularly known to the general public.</p> <p>c). The effect on the pension funds will be at most 3 years because ninety-six percent were re-employed within one year.</p>
The Academic Circle View.	<p>If it is calculated at the average standard monthly income during the whole insured term, the average standard benefits will be lowered so that the insured will be in difficulty in providing against their old age.</p>	<p>It should be paid immediately after disqualification in consideration of the realistic conditions about labour.</p>

As a result of the consultative committee meeting, the MOHSA had decided to adopt the above two EPB proposals.

The last unsolved issue was the one concerning matters connected with the Committee for the National Pension Fund Operation. Even though the MOHSA consulted continuously with the EPB to solve this issue, the MOHSA could not accomplish its proposal. So long as the EPB adhered to its proposal, the MOHSA could not but take a compromising attitude. During his fourth report to his superiors on the interim findings on 22nd of September, 1986, therefore, the Division Chief of Pension Policy suggested an alternative proposal namely that the Prime Minister should be the Chairman of the Committee and Members of the Committee should be composed of the related Ministers, representatives of employers and

employees and related experts.²⁶

7.3.3. The Draft Bill: The Competent Departments Conference.

The final MOHSA proposal was settled on the 30th of September, 1986 and the MOHSA informed the Blue House (the Second Minister Without Portfolio) and the legislative examiner of the Health and Social Affairs Committee in the National Assembly. The same day, the thirteen competent departments conference was held to deliberate on the MOHSA proposal.²⁷

In this conference, the participants discussed the MOHSA proposal article by article and then the MOHSA put various views together. The contents of the suggestions and their results will be shown in the Appendix Four.²⁸

After it made out the Draft Bill, the MOHSA announced the legislation of the National Pension Law in advance on 4th of December, 1986, and it requested institutions or individuals with opposite views about the Draft bill to present them in written form. Several institutions and individuals set forth their opinions. Thereafter, the Draft Bill was submitted to a Cabinet Council and passed on 14th of November after the partial modification of the wording, suggested during the deliberations of the Vice-Ministers' Conference on 22nd of October, the Joint Meeting of the Executive and the Ruling Party on 23rd of October, the Economic Ministers' Conference on 24th of October, and the Office of Legislation on 7th of November, 1986. Subsequently, the Draft Bill obtained the President's approval on 19th of November and sent it to the National Assembly on 22nd of November, 1986.

²⁶ The Pension Planning Division(1987), *Ibid.*, p. 44.

²⁷ The participating departments were the EPB, the MOHSA, the Government Administration, Home Affairs, Finance, Justice, Defense, Education, Agriculture & Fishery, Commerce & Industry, Labour, Transportation, and Communication.

²⁸ The Pension Planning Division (1987), *Ibid.*, pp. 53-57.

7.3.4. Deliberation of the National Assembly.

The National Pension Bill was submitted to the 131th National Assembly and was laid the Bill before the Health and Social Affairs Committee on 27th of November, 1986. However, the discussion was deferred to the next meeting.

The Bill was substantially discussed at the 14th session of the Health and Social Affairs Committee on 10th of December, 1986. First, the Committee members received the proposed explanation from the Minister of Health and Social Affairs and then the report of the preliminary screening from the expert adviser.²⁹

In the second place, the Committee had a question period. However, there was no offensive movement taken by the outs against the government bill because most of the opposition members were prevented by the constitutional amendment debate from attending the Committee. Therefore, only four committee members inquired about the substantial issues, such as the questions of the scope of coverage (Si-Bong Chong), the coordination with the Retirement Allowance System (Joung-Dong Kwon and Sung-Tae Park), the position of the Chairman of the Committee for the National Pension Fund Operation (Joung-Dong Kwon), the interest rate of the lump-sum refund (Jip Kim), and the Standard level for tax exemption and reduction (Jip Kim).³⁰

After questions and answers the Bill was put to the vote and the Committee passed the Bill in its original form. Finally, the National Pension Bill was passed in the Assembly Plenary Session on 17th of December, and was promulgated on 31st of December, 1986. The Law will be in operation on 1st of January, 1988.

²⁹ National Assembly, Record on the Health and Social Affairs Committee (131th). See Nos. 14. pp. 2-8.

³⁰ National Assembly, Ibid., pp. 8-11.

7.4. Conclusion.

In this chapter, we examined how the pension programme re-emerged on the political agenda and then scrutinized the pension policy-making process: how the programme was readjusted in relation to the new socio-economic environment.

In this analysis, we found that the government decision of pension policy was a result of a matured socio-economic environment and the support of political elites for this development strategy. At this time, the most crucial and immediate cause for this initiation derived from the economic environment. Economically, the year of 1986 was a landmark for the following aspects. (1). Korea recorded its first trade surplus in modern economic history. As a result, the government could pursue a flexible monetary and credit policy to provide adequate financial resources for the vigorous growth of socio-economic development. This environment was very important because the first two attempts at NWP implementation emerged and failed on the verge of economic recession. (2). Increased GNP per capita from \$396 in 1973 to \$2,000 in 1986 had been signaling the stability of both industrial workers and business firms to pay pension contributions. (3). Inflation which was previously one of the major obstacles to the implementation of the NWP programme, had stabilised considerably since around 1982. In addition, the interests, goals, and activities of the authoritarian government also created a favourable environment for the pension policy. State activism to promote long-term industrial peace and productivity and increase the stability of the political and economic system was the primary impetus for the creation of a national pension policy at the time.

After the President's news conference, the MOHSA, as a government agency with jurisdiction over social security, gave an impetus to examine how the existing NWP programme should be readjusted. Therefore, the policy-making itself was not as complicated as that of the NWP scheme. As has explained, the three related agencies proposed their own preliminary pension programmes and these proposals were substantially different. The controversial differences between the MOHSA and the EPB proposals were the matters connected with the assessment methods of the pension account, benefit levels, lump-sum refunds, and utilisation of the pension funds. On the

other hand, the different issues between the FKTU and the FKI were matters connected with the Retirement Allowance system and the contribution ratio between the employer and the employee. Even though the MOHSA consulted continuously with the EPB to resolve these controversial issues, the MOHSA could not accomplish its proposal. In the end, the MOHSA's endeavour ended in failure, so that most of the EPB's proposals were adopted.

The National Pension Bill was discussed at the 14th session of the Health and Social Affairs Committee. Even though the Committee had a question period, there was no opposition because members were prevented by the debate on constitutional amendment from attending the Committee. Therefore, without much serious debate, the National Pension Bill was passed in the Assembly Plenary Session on 17th of December, and was promulgated on 31th of December, 1986.

Chapter 8. Conclusions.

As we outlined in Chapter One, the purpose of this thesis has been to examine the development of the National Pension Programme in Korea and the factors related to its development within the context of its national characteristics. After this examination of the development of the Korean National Pension Programme, what can be said about the factors necessary to construct a satisfactory explanation for the development of this state's activities? In this concluding chapter, we will explain briefly what we attempted to do in this study and what are implied as to the objectives of this study.

8.1. Summary and Major Findings.

In Chapter Two, before turning to an assessment of the pension policy-making process, we examined the national characteristics of Korea and their impacts on the social security policy development. We expected that this attempt would help to make it clear how important the Korean national characteristics were to this study and what is considered more specifically in the context of pension policy-making. We found in Chapter Three that the Confucian ideology underlies the government structure and relationship between people so that it provides the value codes for the conduct of the government, the people, and between the government and the people. Confucian ideology emphasizes the hierarchical order, which defines the relationship between government and the people and the relationship between the head of the family and the family members. These relationships have impeded development of social security policy in Korea. The authoritarian rulers did not enable the people to express their needs and call for social policy, so that the political leaders and bureaucrats upon whom social policy development depended did not concern themselves with this matter. Under the Confucian ideology, the 'Kubin' which means safeguarding the poor, has dominated the basic ideology of the social security system in Korea for a long time. As a result, the concept of 'welfare right' has not spread through the majority of the population until recently.

However, the absence of public provision of welfare services for those in need does not mean that they receive no care. Traditional Korean values lead people to care for their elderly parents, disabled family members, or poor relatives. In Korea, much care for the needy is still concentrated in the private sector of the family and community. In terms of material possession, Korean homes have already been modernized or are being modernized, but the pattern of family life, with two or three generations living together, is not modern as that term is understood in Europe or America.

Unlike other developing countries, the former colonists did not introduce modernised social security systems, so that Korea was not influenced by the diffusion effects during the Japanese and U.S. military occupation periods.

The modern Korean social security system emerged with the Korean War. The war created huge needy populations in Korea: war orphans, widows, refugees, and others. Furthermore, the war had a bad effect on the development of social security policy in Korea. As Wilensky claims, heavy military expenditures eventually slow down the development of the welfare state because political energy and expert talent are taken away from the domestic programme and economic resources are used up.¹ Statistics show that Korean military expenditure is extremely high in that it totalled 28.6 percent of the total government expenditures in 1988.² This figure, when viewed against Wilensky's hypothesis, suggests that Korea's heavy military burden is an obvious obstacle on the road to welfare state.

Modern social security facilities in Korea developed out of this social historical context to order to deal with these problems. Since the 1960s, this early development of person social services-oriented welfare programmes has been reshaped to a large scale social policy. However, inadequate funding of the system exists because government policy priorities were given to other areas such as defence and economic development planning.

In sum, an examination of the process of social security policy development in Korea whose ideology, culture, and socio-economic structure differs considerably from the West can be unique and fruitful for theory development of contemporary comparative social policy.

The actual story of the policy-making process of the pension programme was considered from Chapter Four to Chapter Seven. In these chapters we

¹ Harold Wilensky(1975), *Ibid.*, pp. 70-85.

² IMF(1988), *Government Finance Statistics Yearbook*, Washington D.C., p. 40.

examined the formulation of the pension schemes, beginning with the description of the environments that the Korean government faced and ending with the final enactment of the pension programme during the period of 1973-1986. Throughout the policy-making process, we aimed at the following issues. First, the issues to be examined throughout would be where and how policies were initiated, brought to the attention of the government, propelled forward to the point of commitment, or blocked and quietly buried. Secondly, what were the roles of these four determinants in effecting the decision? Finally, how key issues were managed-- in other words, what actually happened to certain issues in terms of compromise and coalition between the different issues and agents? It describes that system in detail, with chapters covering each of the major participants or leading sources of influence on policy choices. Each chapter, therefore, assessed the role and policy perspectives of a leading actor or cluster of actors related by interest, ideology, or function.

In this research of the Korean national pension policy-making, our major findings are as follows.

(1). The NWP programme of 1973 emerged as a political agenda with two-purposes: socio-economic palliation and economic acceleration. In other words, the pension policy was started with the policymakers' understanding that a well designed social security programme would not only serve as a desirable social goal but also an important economic objective.

(2). For these purposes, two agencies, the SSC/MOHSA and the KDI/EPB, put forward their proposals. However, the two proposals were widely different, since they were originally intended for different purposes. The MOHSA's proposal laid emphasis on the former purpose, whereas the EPB's proposal was geared primarily to the latter purpose. In addition, the two proposals have shown that the ideological distinction was obvious. The KDI's proposal was modelled after the social security system of the United States with the consultation of many people from that country, while the MOHSA's plan was modelled on the social insurance system of Japan. It is therefore important to note that the prime purpose of their consultation was to search for compromise or to reach an agreement in the policy-making process. This means that central government departments, whilst often being the target of external pressure groups, were playing pressure group roles themselves. Thus, the conflict was set between the MOHSA and the

EPB. As we have seen in Chapter Five, the NWP programme was made by a relatively constricted and autonomous set of actors with a strong sense of proprietorship in the programme. Among the preparatory groups, the MOHSA set up the NWP policy-making strategy within the control function of the EPB, which was headed by a powerful Deputy Prime Minister and Minister of EPB who maintained close contact with the president. As a result, even though the MOHSA had some power of influence as a government agency with the jurisdiction over social security, it was doubtful whether there existed any MOHSA's authority in the policy-making process. In the NWP policy-making process, on the other hand, the role of pressure from subordinate classes and other organized pressure groups associated with them was not found because the political environment did not allow their activities under the bureaucratic-authoritarian regime. Given these features, the NWP programme was formulated on the guidelines of the president and his staffs. Consequently, the policy-makers adopted more parts of the KDI's proposals than of the MOHSA proposals, partly because the government was against the high cost of the NWP programme and partly because the government had hidden intentions that the reserves accumulated by the pension scheme would be an important source of funds to finance part of domestic investment. The examination of this study showed that elite attitudes and political initiatives were key factors in determining whether or not political coalitions for the new social security programme could be put together.

(3). As we have seen in Chapter Six, the NWP programme was postponed by the Economic Emergency Measures for Stabilisation of the People's Life on 14th of January, 1973. This emergency measure was caused by the oil crisis of 1973. In this study, however, we found that the oil crisis only gave the government a plausible excuse for postponing the NWP programme as it does not explain why the NWP programme was postponed several times since then even though the economic environment had improved, and why the Private School Teacher Pension programme was implemented in 1975 even though this plan was postponed for the same reason at the same time. Therefore, I argued that the NWP programme was postponed by political struggles among policy-makers in the process of the formation of the industrial restructuring strategy. This is evidence that President Park did not accept the EPB proposals for economic reform, and that the government

would from then on emphasize growth, stabilization, and welfare together, rather than single-mindedly focusing on growth alone, as it had in the past.

(4). The NWP programme was then further postponed several times even though its necessity had been affirmed and the environments had improved. It was not until 1988, after the amended law passed in 1986, that a National Pension Programme was really implemented by the Korean government. As we have examined in Chapter Six, one of the main reasons was that the governments have been preoccupied with economic development while the need for equitable redistribution was mainly neglected. The reasons for the governments' reluctance to assume collective responsibility are not difficult to understand. Excessive welfare spending leads to higher taxation, while in turn retards the capital accumulation process and diverts income away from investment in productive economic activities. In this respect, the concept of the welfare state may have been seen by the Korean government as a potential threat to the successful accomplishment of its major goal--national development. Thus caught in the cross-currents of different values, traditions, and political and economic situations, Korea seems to be drifting away from the implementation of the NWP programme.

Since the late 1970s, many government officials and planners have begun to agree that equitable redistribution of income was an important issue of Korean development. In a long-term socio-economic policy prospects prepared in 1977, the KDI, the government's leading policy agency, proposed the following:³

"In Korea, under the prevailing conditions, distributive equity must be considered as one of the top priority policy objectives to promote the welfare of the people as well as to insure national unity."

Even the ruling conservative political party joined this trend in the late 1970s.⁴ In particular, the year of 1979 gave most opportunity for implementing NWP programme in relation to the political and socio-economic environments in Korea. The environment at that time was nearly in the same situation as that of the early 1970s when the NWP programme was initiated as a political agenda for the first time. At this time, too, the

³ The KDI(1978), Long-Term Prospects for Economic and Social Development: 1977-1991, Seoul: the KDI. p. 171.

⁴ See, Revitalizing Reforms Political Fraternity Association(1977), Tomorrow's Korea, Seoul: Yujong Hoe.

government needed some appeasing policies to gain public opinion. As a result, when President Park made an annual visit to the EPB in January, 1979, the Deputy Prime Minister and Minister of the EPB reported to the president on the enforcement of the NWP programme as from 1980. Meanwhile, the Minister of Health and Social Affairs also informed the president of the continuing study of the implementation of a NWP programme when he visited. In reply to these recommendations, once again, President Park only instructed that the MOHSA, without giving a concrete form to the enforcement plan, should conduct researches into the process of operation in advanced countries in relation to the real state of affairs in Korea. Park had hesitations in accepting the recommendations like other new policies mainly for two reasons. One of the reasons which underlies the search for alternatives to the NWP is the alarm with which the president and his staff view the financial difficulties with in the social security systems that the industrialised countries face at that time. The other reason is that the Korean business groups were strongly opposed to the implementation of the NWP programme if it was not coordinated with the Retirement Allowance system. Since the business groups, especially big business conglomerates, were bound up with his regime, President Park was in a delicate situation if he rejected their demands. In sum, President Park fell into a dilemma: if the NWP programme was implemented, the result could be the expansion of public expenditures, less flexibility in the selection of economic goals, and a fundamental change in the government's essential priorities. Yet failure to move in such a direction might eventually reduce the political support for his regime, a reduction which could well result in many of the same consequences. Therefore the NWP programme of the Fourth Plan was doomed to continuous postponement until Park's death on 26th of December, 1979.

During the transitional period of Korean politics after the end of the Park regime in 1979 all new political parties raised 'equity' along with 'democracy' as major campaign issues. By early 1980, Korea lived in a situation under which 'social welfare' and 'social justice' were used as symbolic slogans to summarize political goals and to justify the political identity of the new regime. Thus, social policy seemed to have become one of the political issues which no political group could ignore in the Korean political scene of the 1980's.

In spite of the fact that the Korean economy has been significantly growing in terms of the GNP and per capita GNP during this period, and the government's pronouncement that it would promote social development since the mid-1970s, a change of policy direction has not occurred. The Korean economy spends a smaller proportion of its growth product on social welfare programmes than other countries with similar economic conditions. In 1974, for example, the total expenditure on all social security programmes in Korea amounted to only 0.65 percent of the GNP, whereas the average ratio of social security expenditures over the GNP ranged from 1.2 percent in the countries with the lowest per capita incomes, to 16.2 percent in those countries with the highest. In 1985, only 1.1 percent of the GNP has been spent for social welfare programmes, which was a significantly low level compared with other countries. Therefore, it is noteworthy that the growth of social security programmes in Korea is to some extent unrelated to the stage and rate of economic development. This observation supports the suspicion that the enactments of the social security programmes were aimed primarily for political propaganda, with very little intention of promotion and implementation of the programmes. It also supports the argument that the government uses social security programmes as an instrument for social control. During periods of political stability, when pressures for development of social security programmes occur, the ruling elites, acting on the basis of the Confucian political culture of subordination of the ruled and authoritarianism of the ruler, purposely retain and reinforce traditional values by introduction of the official ideology of loyalty to the nation, i.e. to preserve the status quo. We can easily find government reports which emphasize these values. For example, the Bureau of Social Welfare's essay argued that:⁵

"Advanced industrial societies, though they enjoy material affluence, may suffer from the problems of spiritual unrest, even with well established welfare systems and the question is raised as to the effect of social security programmes on the further disintegration of the family..."

Therefore,

⁵ The Bureau of Social Welfare(1979), "Changing Family Patterns and Social Security Protection: The Case of Korea," International Social Security Review, Vol. No. 1. p. 31.

"When dealing with social security in Korea, the strategies should try to maintain a balanced development between material and spiritual aspects by promoting the traditional social values and cultivating the merits of the traditional family system to supplement the social security and welfare system."⁶

Changes in social security programmes occur when events threaten the political system, and political elites introduce new social security programmes or expand the scope of the current social security programmes. In relation to the National Pension programme, the timing of initiation and postponement support this social control theory. The NWP programme was initiated and developed during the preparation of the Yushin Constitution under the martial law. Thus the National Pension programme did not evolve out of humanitarianism or compassion but as a response by ruling elites to threats to social stability.

(5). The pension policy was finalized when the revised National Pension Law was enacted in 1986. As we examined in Chapter Seven, the government decision of pension policy was a reflection of matured socio-economic environments and the support of political elites for this development strategy. In particular, the most crucial and proximate cause for this trend derived from the economic environments and the interests, goals, and activities of the authoritarian government. State activism to promote long-term industrial peace and productivity and increase the stability of the political and economic system was the primary impetus for the creation of a national pension policy at the time.

8.2. Implications for the Four Approaches.

As noted in Chapter Two, this study has adopted four approaches to the study of the pension policy development: the socio-economic development approach; the pluralist approach; the authoritarian-corporatist approach; and diffusion approach. We suggest that the approaches concerned have helped to draw the guidelines which are expected to lead to a wider knowledge of

⁶ *Ibid.*, p. 30.

the development of social security policy in the developing countries, in particular, Korea.

After this examination of the development of the Korean National Pension Programme, what can be said about these four approaches necessary to construct a satisfactory explanation for the development of this state's activities ? More generally, what can be said about those approaches to the Korean pension policy-making which are likely to prove fruitful for new research ? If we found some relevant evidence to show that these approaches are relevant to the development of social security policy in Korea, then these approaches of development of social security would have universal applicability. On the other hand, if we could not find sufficient evidence, we would have try to find an alternative explanation for the development of social security policy in Korea. In order to test the above approaches and demonstrate the explanatory values of social policy development in the developing countries in general, and in Korea in particular, we will analyze the influences of the four key forces on the policy-making process of the Korean National Pension Programme. On the basis of the analysis presented in Chapters 4-7, the following conclusions can be drawn.

8.2.1. The Socio-Economic Development and the Rise of the National Pension Programme.

As we examined in Chapter Two, this approach suggests that a social security programme emerged and expanded in the process of industrialization. This proposition is most readily associated with the functionalist theory of social welfare which stress on the dynamic impact of the socio-economic changes and associated social problems that emerge during the industrial transformation of societies. The theory posits that economic growth increases the possibilities for choice, and these socio-economic changes and associated problems create political pressures for the introduction of social security programmes and have a converging effect in that emergent welfare institutions in different industrial societies share common characteristics.

However, the present study discovered that the relationship between socio-economic development and the National Pension development was ambiguous even though the socio-economic development process in aggregated terms has led to creating favourable conditions for the adoption of the programme for these reasons.

(1). In the Western countries which were the first to industrialize, the state itself had little to do with the new forms of economic activity. When society became convinced that the welfare of the industrial workers is too important to be left to the vagaries of market forces, the idea of welfare programme emerged. The idea of a welfare scheme in this context is a historical alternative to laissez-faire government and incorporates the virtue of government intervention to better equalize income distribution in favour of the lower classes. However, the industrial development in Korea has not been characterized by laissez-faire but by extensive government intervention and the deliberate adoption of policies that would promote industrialization. Therefore, it is reasonable to conclude that in this markedly interventionist climate, political elites would formulate social policies that were congruent with the overriding objective of industrialization and economic progress.

(2). According to this approach, the social security system should ameliorate the social contingencies. However, the legislation of the National Pension scheme in Korea is by no means aiming to reduce their development problems, e.g., poverty and inequality; but, on the contrary, to bring more benefits in a rather subtle way to the upper and middle social classes in the form of social stability and fiscal benefits.

(3). This approach does not explain why the extent of government involvement in income redistribution and social security programmes has been rather small by international standards even though Korea has experienced outstandingly high rates of economic growth between 1960s and 1980s. In fact, the share of social security in the total government budget did not improve at all during this period. Therefore, it is impossible to understand it without reference to the major role of government policy in planning the nature of economic growth and aiming for economic equilibrium.

(4). Finally, the socio-economic development process concurrently taking place in Korea had not led to a total transformation and differentiation in the social, economic, and political elements of social structure. Only in the

aspects of industrialisation and rapid urbanisation has the socio-economic development process brought about a transformation in economic production and over-population in urban areas. The political system of Korea has appeared to be far from democratic. This development has resulted from the traditionally apathetic Korean attitude towards politics. The social structure at large has still appeared to be a family-bound network, through the family structure has been transformed from an extended pattern into a stem or nuclear type as a result of urbanisation. Those accounts of the direction and mechanisms of the socio-economic development process in the developing countries in general in Chapter Two have thereby substantiated our first general approach. In logical terms, if an analogous relationship of the socio-economic process between the developed and developing countries has not been supported and established, then any social development approach cannot be generalised from one country to another. In the same vein, social welfare development approach carved out of the experience of welfare-advanced states can not directly account for the development of welfare services in the developing countries without modification.

8.2.2. The Relationship between the Pluralist approach and the Rise of National Pension Policy.

As the enumeration of approaches of welfare studies suggested in Chapter Two, the pluralist approach of social security policy development has emphasized the existence and prevalence of pressure groups on the formulation of social welfare policies. Pluralist theory attempted to explain government intervention in the legislation and implementation of social welfare programmes in terms of the pressures emanating from political differentiation in the course of industrialisation. The main tenet of pluralist theory is that it stressed the formation of pressure groups and the manner in which policies are formed as the outcome of a lobbying process. It is suggested, then, that the development of the labour movement and the existence of the working class parties and trade unions as pressure groups has led to the emergence of a modern welfare state. As we have seen in this

study, the application of pluralist notions to the Korean pension policy-making context was open to several serious questions.

(1). The authoritarian Korean government was never a neutral arbiter as pluralism suggests. The pension policy-making took place within an unequal distribution of power among the government, labour unions, and the business organisations. The top-down approach was rooted in the paternalistic tradition of Korean society and also in the prevailing nature of the authoritarian system of the government bureaucracy, particularly after the military coup of 1961. In addition, an elite system formed under dictatorial conditions was characterised by subordination, submission, and passiveness. With the characteristics of the system of elites in a society with a resultant monolithic power structure, the governing elites alone decide and allocate all the major kinds of values in the society. No organisations or other groups were permitted to challenge or act against this elite group nor allowed even to exist if they stood against those in power, although select high status groups, such as the business organisations who had solid interlocking relationship with key political elites, might be able to effectively press their claims and secure desired political outcomes. However, occupational organisations such as labour unions did not have this political capacity. Instead, they show workers' organisations as fundamentally bound to the political regime through control over legal recognition. This permits extensive regime control of the activities of unions. Thus, these pressure groups were hardly in a position to make autonomous demands for social security protection or secure implementation and expansion of existing social security policies. This increasingly prominent interpretation of Korean politics, therefore, issues a serious challenge to the pressure group politics approach. Based on these views, the state can not be expected to be a major instrument for redistribution against the will of the economically dominant class. It can be argued that the political pluralism of national pension policy-making was only a surface appearance, concealing a compromise of competing social values, and the state welfare is a set of policies to meet the long-term interests of the upper or upper-middle social classes.

(2). The most important factor in pluralism was widespread individual-in-group participation in politics. In fact, however, contemporary study revealed that only a small minority of citizens and interest groups were involved. This is because the Korean bureaucratic elite, a bureaucracy that clearly did not

conform to democratic forms, warrants consideration as an effective instrument in facilitating economic and social development objectives.

(3). Implicit in pluralism is the assumption that individuals and groups complete freely in the political marketplace and that the outcome of the policy process is the result of the parallelogram of forces involved in politics. Therefore, elections are at the very least a way of keeping the score. That is, elections permit the weighing of the political strengths of various groups and, in a rough and imprecise manner, the relating of mass opinions to the policy outputs of politics. However, in Korea there was virtually no relationship between the electoral game and the policy-making game. The former merely determined what the strength of the forces in National Assembly would be.

(4). In sum, any interpretation of social security policy development in Korea such as the product of autonomous pressure group demands and the articulation of workers' interests should be viewed with a certain scepticism. It is only conceivable that the evolution of social security policy in certain industrialised countries such as Britain or Latin American countries may be best explained in this manner.

8.2.3. The Authoritarian-Corporatist Approach and the National Pension Policy Development.

According to this approach, the state may not be a mere passive receiver of pressures from groups. It may also exercise its own initiatives by using social security as the instrument to co-opt, neutralize, and control those groups in order to maintain some sort of social order. In attempt to overcome a perceived threat from so-called populist movements or from political mobilisation by popular sectors, some regimes have created a government structure which exclude these groups as a primary element in achieving 'order' and 'social peace.' This approach, therefore, stresses the linkage between policy development and the modern authoritarian regime, and is central to the state-centred model. This approach was very helpful in explaining how and why the Korean governments interested in formulating the National Pension programme.

The central motivation for the adoption of the National Pension programme came less from these economic trends and characteristics than from the

needs and interests of a key political elite. As we have examined previously, beginning around 1962, the Korean political elite, dominated by the Chief Executive, began to actively promote rapid industrialisation. Park assumed economic development as the key to his own political success as well as to the establishment of political stability and as the means for overcoming negativism and frustration in the country. Therefore, he renewed his leadership commitments to economic development and attempted political, economic and industrial reforms conducive to economic growth. In this situation, the regime became increasingly involved in the active promotion and protection of domestic industrial expansion. In order to encourage investment, the regime acted to restrain the labour movement and to divert an increased portion of the national income into capital investments and returns. While there was little open opposition to these government policies, the potential for hostile labour reaction could not be entirely dismissed.

President Park and Chun, therefore, were faced with two problems--the problem of continued labour control and the problem of continued industrial development. The National Pension programme was then a dual-edged sword to attack both problems. On the one hand, this policy initiative allowed the President to offer workers a greater symbolic participation in the benefits of regime-sponsored industrialisation. Heightened labour support for the regime and the cooptation of potential labour dissenters were anticipated effects of the measure. The timing of emergence, postponement, and reemergence of national pension policy afford a proof that the government used the programme as a instrument for social control. The enactment was the response to political unrest caused by the Yushin Coup in 1972. After overcoming political crisis, however, the implementation was postponed on the basis of the priority of economic development. Given the priority of the national goal of economic development, any national policy was expected to adapt to this goal. During the end of 1970s and mid-1980s, the government was again threatened with political unrest by the economic recession and civil rights movement. The result of this political unrest was the government's promise of implementation of the National Pension Programme in 1988.

On the other hand, this policy was seen as a device for increasing productivity and pacifying the workforce. With the regularization of this aspect of work-management relations, the way was smoothed for further industrial development. Furthermore, the accumulated capital reserves which this programme would produce would constitute new resources for

social and economic infrastructural development. This programme, therefore, would also allow the state to further promote the industrialisation effort. With these considerations in mind, a state decision in favour of pension policy adoption was made, and directions were given for the drafting of a formal proposal. A small group of selected bureaucrats was charged with the development of this proposal, and this task was basically left in their hands. After a preliminary draft was presented, the symbolic participation of the relevant sectors was solicited. However, as the policy-making records show, the substantive contribution of these sectors to the proposal was minimal, but this gesture gave the measure a populist coloration. Therefore, this research provides much substance to an Authoritarian-Corporatist interpretation of social security policy development in Korea in the period covered by my research. This study illustrates the link--either directly or indirectly-- between authoritarian-corporatism and social policy. This approach is clearly relevant to many other developing countries. Social security policy in many developing countries flows from paternalistic authoritarian leaders attempting to diffuse labour agitation and protect the *status quo*.

8.2.4. The Diffusion Influences and the National Pension Policy Development.

As enumerated in Chapter Two, a few comparative studies of social security development have suggested that the development process of social welfare schemes is a diffusion one which takes place along two axes: hierarchical as well as spatial. The present study has revealed that the diffusion approach has to some extent had its feasibility in accounting for the rise of the Pension programme in Korea. The diffusion process has taken place in the following aspects by means of colonisation as well as international impact. The development of the National Pension programme has been responsive more to the impact of international organisations than to traditional colonial legacies. Unlike other developing countries, the influence of colonialism was not so influential in Korean case, partly because the Japanese did not introduce any social security system in Korea and partly because Korea did not have diplomatic relation with Japan until 1965. During the 1960s the recommendations adopted by the UN had been used to justify the proposals for a multi-risk programme. In the early 1970s, the Regional Conference of the International Council on Social Welfare

which was held in Seoul and some foreign advisers such as Paul Fisher had effect on the development of the Korean pension policy. On the other hand, international welfare crisis in the 1970s exerted a negative influence on the policy-makers. For example, when the Deputy Prime Minister and Minister of EPB and the Minister of Health and Social Affairs reported to the president on the enforcement of the NWP programme in 1979 the president hesitated to accept the recommendation because of the financial difficulties social security systems in the industrialised countries faced at that time. In the 1980s, with the proliferation of social security policy in the world, and with the increasing association of this policy with progressive government, the continued absence of a national social security programme in Korea became a source of some embarrassment to Korean leaders. Among the 40 countries whose GNP per capita exceeded \$2,000 in 1985, only three countries, namely Korea and two oil-producing countries, Oman and the United Arab Emirates, failed to implement social security pension systems. Furthermore, taking the 1988 Seoul Olympics opportunity, the Korean government made a display of her national fortunes. Government statements indicate their discomfort at the growing isolation of Korea from this international policy-making current. Thus, the association of a national social security programme with the modern state, and the proliferation of these programmes in the world heightened the feeling among policy-makers that Korea should participate in this growing international movement. This analysis indicates that diffusion exerted a rather limited influence during the period characterised by authoritarian-corporatism but, following the liberalisation of Korean society, is now of much greater importance. The influence of diffusion on Korean pension development is therefore not the same as Midgley and MacPherson hypothesise for developing societies. Until recently it hardly operated at all, but it now operates through the concern of policymakers in Korea not to be out-of-step with other newly industrialised countries.

8.3. Concluding Remarks.

As Dreze and Sen have claimed⁷, there are two contrasting approaches to the removal of precarious living conditions: the Growth-Mediated Security and the Support-Led Security. In this study, we examined a typical 'growth-mediated security' approach. Let us return to the literature on the

⁷ Jean Dreze and Amartya Sen(1989), *Ibid.*, pp. 179-202.

development of social security policy in the developing countries which we started: are there lessons to be learned from the explanation which has been constructed about the development of social security policy in Korea ? I believe there are, for two reasons. First, the dynamics of economic development in Korea between 1960 and 1986. Second, there has been, in fact, serious detractors questioning the viability of this avenues of action.

As we have seen, the growth rate of the GNP per capita in Korea over the last few decades has by any standard been a highly impressive one. Some forty or so years ago, no one would have predicted such future success. Then, war raged in the peninsula and much of the physical infrastructure was being destroyed. The two newly created Korean states were hopelessly and irreconcilably split and just to ward off even greater disaster and suffering had to rely on external military support and massive international assistance. When it joined the IMF in 1955, its per capita Gross National Product(in current dollars) was only \$65; by 1987 it was \$2,818 ranked above average on the international income scale.

Observers, seeing Korea rise from a pre-industrialised society into a modern industrial nation--like a phoenix from the ashes of the Korean war--have termed the success "the miracle of the Han River."⁸

Although Korea, with successful pursuit of growth-mediated security, has experienced extraordinarily low rates of unemployment by the standards of developing economies, it has been at the cost of lagging social development. The pie has been increased but it has not been shared evenly. The gap between rich and poor has increased, and problems of poverty have not been solved. According to the Department of Finance, the total amount of sales of 30 conglomerates was equivalent to 60 percent of the GNP in 1985.⁹ Moreover, the EPB released a report that the annual income of the top ten percentile was ten times greater than the income of the bottom ten percent of the population in 1988.¹⁰ However, poverty is also part of life for industrial workers through whom the tremendous economic growth has been achieved. In 1987, the average monthly wage in the manufacturing sector reached only 67.4 percent of the minimum cost of

⁸ C. A. Buss(1982), The United States and the Republic of Korea, Stanford: Hoover Institution Press, p. 28.

⁹ Hankook Ilbo, 12 September 1982.

¹⁰ Chosun Ilbo, 16 November 1989.

living for a family of four as suggested by the FKTU, itself a huge improvement on the past two decades.¹¹ Furthermore, firms that pay workers less than 100,000 won (approximately \$120 U.S.) constitute 40.3 percent of the manufacturing sector, a fact which suggests that low-paid workers are concentrated in the smaller companies in the industry. The reality of inadequate wages becomes even more pointed when one considers that the manufacturing labourer works an average of 54 hours per week.¹² These phenomena are only a reflection of the poverty suffered by the working poor; it is easy to imagine the unbearable poverty of the self-employed and the unemployed in a nation in which the redistributive system of social security is extremely limited.

In response to emerging needs and public pressures, the Korean government has maintained that the development of a welfare state has been one of its major goals since 1981. The government sporadically announced its willingness to reduce inequalities in income distribution and expand the scope of social services. As a result, many social security programmes were introduced and expanded. However, there seems to be little sign of progress in alleviating the social problems of Korean industrialization and in halting and reversing the rapidly increasing social inequalities. One of the main reason is that, as we mentioned already, the social security system in Korea primarily caters through occupational welfare to the needs of those who already have secure jobs and steady incomes and excludes those who need social security protection the most. Of the present situation in Korea it might be said that outward appearance seems to be good and even good-looking because of its successful growth-oriented economic development. But as long as the large majority of farmers, who have contributed significantly to this successful growth, continue to be poor and are not able to share the benefits in a much more equitable manner than in the past, Korea will still have serious problems. Recent political turmoil in Korea is based on the problems associated with this lagging distribution of the already increased wealth, having pursued a consistent policy giving priority to economic development planning over social policy development.

¹¹ Ministry of Labour (1988), *Yearbook of Labour Statistics*, Seoul: Moonwonsa, p. 178. In Korean.

¹² *Hankook Ilbo*, 17 March 1985.

Because of the political salience of continuing inequalities in income and wealth distribution, the future of the National Pension programme will be very important for the future of the welfare state in Korea. This is particularly because of the likely gradual extension of the National Pension scheme, as we have seen in the development of the Medical Insurance programme. This extension is likely to be through the coverage of additional groups of persons, including extension to new classes of undertakings either by industry or according to the number of persons they employ.

However, it is very difficult to estimate the future of the National Pension programme because there is a considerable time lag between the introduction of a new programme and the increase in actual outlays. This is particularly so in Korea because the pension programme has such a short history. Yet, we can predict that the initial limitation of the scope of the pension scheme and the principle of extending it gradually, will arouse some contrivencies in the future. This is because, since President Rho's proposal on political reform on 29th of June 1987, Korea is undergoing a spectacular transformation as measured by any one of a number of yardsticks. People are demanding democracy. Economically, Korea has managed to transform itself from an assembly economy to a high quality export producer. And socially, it now confronts a host of new but completely unwelcome economic problems associated with rapidly rising living standards and even more rapidly rising expectations, as attested to by labour demands. Authoritarian-Corporatism no longer provides the basis for policy development.

These political and socio-economic transformations will have various influences upon the evolution of the National Pension policy in the future, for many reasons. First of all, as we mentioned already, most salient in the historical development of the welfare state is its promotion of democratic values. Now that a new President has been elected by popular support in 1988, it is generally conceded that the furtherance of political democracy in Korean society is not only the crucial factor in the development of political and social stability, but such democratization will also give strong impetus to the development of the National Pension policy for which Korean society has been yearning. Furthermore, this aspect of change necessary for promoting the government's direct intervention in the sphere of social welfare will be closely related to the issue of encouraging the participation of traditionally neglected segments of society in the current political arena. In

the case of the Medical Insurance, for example, the Korean government introduced a subsidy for contributions by the lower classes because of university students and social activists campaigning in 1989. Further participation in the National Pension programme by the disadvantaged segment of society is similarly essential. Furthermore, until 29th of June, 1987, Korean trade unions were docile. In the three months following Mr. Roh's speech, however, there were 3,300 strikes, and 1,400 new unions were formed. All unions are now pushing hard for their members' welfare. In this process, average annual wage increases during 1988 and 1989 exceeded 20 percent, surpassing labour productivity for the same period.¹³ Therefore, the emergence of a reform movement within the Korean unions may be perceived as a positive development necessitating state intervention in the area of the National Pension policy. Moreover, the pluralist model seems to be emerging with the evolution of interest groups. This will be important for the development of the National Pension programme. Finally, according to the KDI projection, the Korean economy is expected to sustain its growth at the average annual rate of about 7 percent until the year 2000.¹⁴

However, it would be naive to imagine that the coverage of National Pension policy in the future is likely to improve dramatically. The widening of coverage can become possible only when the government subsidises relatively low income persons' contribution. As we have seen already, however, policy-makers will not be inclined to envisage a welfare society based on heavily public welfare spending, a lesson learned from more advanced market economies. Therefore, the social insurance system, which is expected to expand in the future, will have to be based mainly on the principle of cost-sharing by beneficiaries.

In sum, if significant progress is to be made in the National Pension programme in Korea then greater priority will have to be accorded to social welfare expenditures. Then direct and indirect subsidies will extend National Pension policy development.

Although every country has to follow its own path to modernization and development, all countries can learn from each other's experiences. They can learn either what to avoid as being totally out of character and beyond

¹³ Chosun Ilbo, 1 December, 1989.

¹⁴ KDI(1986), Korea Year 2000, Summary Report, Seoul: The KDI.

realization or what might be worth copying and adopting to local conditions. Therefore, if any developing country wants to learn by Korean experience, the instruction is that economic development appears to be a necessary condition but not one sufficiently conducive in itself to the development of social security policy.

Appendix 1: Interviewees.

- (1). Chun-Song Che: Former Chief Research Fellow of the Social Security Committee, MOHSA.
- (2). Ill-Jae Cho: Former Assistant Deputy-Director of the KCIA and Member of the National Assembly.
- (3). Kyung-Kyoon Chung: Professor of the Seoul National University and Former Professional Staff of the MOHSA.
- (4). Sang-Rak Ha: Former Professor of the Seoul National University and Member of Social Security Committee, MOHSA.
- (5). Jong-Ok Hong: Director-General of the National Pension Bureau, MOHSA.
- (6). Jong-Kil Im: Director of the National Headquarters for the Labour Welfare, FKTU.
- (7). Hoon-Sik Kim: Advisor for the Labour, Korea Employers' Federation.
- (8). Jung-Tae, Kim: Vice-President of the Population and Health Research Institute, and Former Professional Staff, MOHSA.
- (9). Mahn-Je Kim: Former President of the KDI and Deputy Prime Minister and Minister of the EPB.
- (10). Sang-Kyun Kim: Professor of the Seoul National University and Professional Staff, MOHSA.
- (11). Yong-Moon Kim: Director of the Planning and Management Office and Former Head of the Pension System Division, MOHSA.
- (12). Bo-Sam Lee: Policy Fellow, the Korea Employers' Federation.

- (13). Hae-Won Lee: Former member of the National Assembly and Minister of the MOHSA.
- (14). Woon-Ha Lee: Policy Fellow, the New Democratic Republican Party.
- (15). Jae-Sung Min: Research Director of the KDI and Former Research Fellow of the Social Security Committee, MOHSA.
- (16). Ok-Ryun Moon: Professor of the Seoul National University and Planning Coordinator, EPB.
- (17). Chong-Kee Park: Former Director of Research of the KDI and Professor of the Inwha University.
- (18). Myong-Sook Park: Policy Fellow, the New Democratic Party.
- (19). Yeon-Ku Park: National Headquarters for the Labour Welfare, FKTU.
- (20). Joon-Kyu Sohn: Former Research Fellow of the Social Security Committee, MOHSA and Professor of the Dongkook University.
- (21). Ha-Cheong Yeon: Vice-President of the KDI.
- (22). Kyu-Back Yi: Section Chief of the Pension Division, Bureau of the National Pension, MOHSA.
- (23). Sung-Ho Yoo: Division chief of the Pension System, Bureau of the National Pension, MOHSA.

Appendix 2: The Contents of the National Welfare Pension Draft Bill.

1. The Basic Directions.

(1). To enhance the morale of the working people by removing anxiety and threat from old age, disability, and death.

(2). To accomplish equal allotment of the benefits of economic development by maintaining people's minimum living standard after they complete their efforts and services in the process of economic development and reach an old age.

(3) To start the social security system and to stimulate economic development by securing investment capital through expansion of employment opportunity and social welfare facilities.

2. Qualifications of Subscribers.

(1). Nationals of the Republic of Korea aged 18 years through 60 years(55 for women, miners, and seamen).

(2). Compulsory subscription is a general rule, but at the beginning of the programme's operation voluntary subscription will be in effect because of the heavy administrative burden that there would be if there was full compulsory subscription.

1). Compulsory subscription: The employees of business enterprises and organizations employing more than thirty people, but beginning in 1977 coverage will be extended to those employed the business and enterprises and organizations with ten or more employed.

2). Voluntary subscription: The employees of businesses and organizations excluded from the compulsory subscription, self-employed(owners of workshops or offices, farmers, and fishermen), and foreigners employed in domestic corporations.

3). Exclusion from the subscription: Temporary workers, civil servants and military personnel, and private school teachers.¹

¹ Private school teachers were planned to be covered by the Private School Teachers' Pension program. Interview with Jae-Sung, Min.

(3). Voluntary subscribers such as employees of business enterprises and organizations with less than nine people, self-employed, and employees in the field of farming and fishery will be gradually included in compulsory subscription category as the system becomes mature.

3. Finance.

(1). The employed: a). Employees: 4 percent of their standard monthly earnings as a monthly subscription fee; b). Employers: 4 percent of the standard monthly earnings as donation and employers will contribute the subscription fee of those whose standard monthly earning is less than one-half of tax exemption limit(7,500 won per month).

(2).The self-employed(Voluntary subscribers): Self-employed will pay a monthly subscription fee determined by presidential decree, because it is difficult to determine separate income levels.

(3). The government: Government will meet the administrative management cost.

(4). Standard monthly earning: a). It is established to simplify collection and payment operation: lower limit, 7,000 won per month; upper limit, 150,000 won per month; b). It will be adjusted as needed.

(5). Support in tax system: a). Amendment to tax law for 50 percent deductible for the annuities; b). Donation of the employer will be treated as loss in the corporation tax law; c). The effect of deduction of tax: 5,616 million won(1974: 878 million won).

4. Benefits.

(1). Old Age pension.

1). **Qualifications**: a). When subscribers reach age 60, and they have paid the subscription fee for more than 20 years; b). A reduced pension for those who have paid for between 10 to 20 years; c). A lump-sum refund which is the sum of the subscription fee plus special additional pension will be paid to those who have paid between 5(2 for women) and less than 10 years when they reach age 60(55 for women); d). A lump-sum refund which

is the sum of the subscription fee will be paid to those who have subscribed for less than 2 years(2 for women).

e). Interim Measures: As of 1974, for those who are aged between 41 and 55, if they subscribe for more than 10 years, the basic annual pension will be paid, and if they subscribe between 5 and 10 years, reduced pension will be paid.

2). Payment Methods:

a). Benefit level: Average 40 percent of the average monthly wages for the past immediate 3 years(25%-70%); 70 percent is the maximum.

b). Benefit computation: The basic pension=equal allotment+proportional allotment.

Equal allotment: 1% of the average monthly wages of the whole labour multiplied by the number of months of subscription(if the subscription period is less than 240 months, it will be reckoned up for 240 months).

Proportional allotment: 1 % of the average monthly standard compensation for the past immediate 3 years multiplied by the number of months of subscription.

c). Adjustment of benefits: Benefits will be adjusted according to the increase of wage and living standard as determined by the implementation decree.

d). Additional Pensions: a). It will be paid to those who have subscribed for more than 20 years up to 30 years; b). When claimants continue working after 60 years of age, 40 percent to 80 percent of the basic old age pensions will be paid between ages of 60 and 64, and 100 percent of the basic old age pensions will be paid after 65 regardless of the employment status.

(2). Disability Pension.

1). **Qualifications**: a). The subscription period should be more than 3 years; b). The subscribers have to have paid the subscription fee until before the past immediate 3 months.

2). **Benefit Methods**: Graduated benefits based on the basic old age pension according to the degree of disability.

a). 1st degree disability(80% loss of earning ability): 100% of the basic

pension.

b). 2nd degree disability(60% loss of earning ability): 50% of the basic pension.

c). 3rd degree disability(40% loss of earning ability): 30% of the basic pension.

d). When the NWP is in competition with Industrial Accident Compensation or any other compensation scheme in terms of benefit payment, the claimant should choose one from among them.

(3). Survivor Pension.

1). Qualifications: a). When the subscriber who has paid for more than 3 years dies; b). When the subscriber has paid until before the past immediate 3 months; c). When the claimants of old age pension, and 1st and 2nd degree disability pensions dies.

2). Benefit Methods:

a). Benefits for spouse: 1). Payment will be made only to the spouse when spouse and children have survived; 2). At the amount of 50% of the old age basic pension for age 50 and older spouse; 3). At the amount of 50% of the old age basic pension for those aged less than 50 for 5 years. But when the spouse is disabled, or takes care of parents over 60 years of age or dependent children under 18(no age limit for disabled children), the payment will be made continuously.

b). Benefits for disabled or dependent children under age 18(when both parents have died): 1). 30% of the basic pensions; 2). If more than one child survived, 10% will be paid to each child.

5. Policy Effects.

(1). Establishment of the basic social security system.

(2). Attainment of income redistribution.

(3). Enhancement of national solidarity.

(4). Possibility of diverting reserve funds to economic development, especially for an expansion of welfare facilities.

Appendix 3: The Three Proposals.

1. The MOHSA Proposal.

The MOHSA submitted the new plan to the Sixth Five-Year Plan on 19th of September and 10th of October, 1985 respectively. The basic directions and contents of the new programme briefed by the MOHSA were as follows:¹

(1). The Basic Directions: 1). From the standpoint of the three-tiered security system, the public pension programme should be minimized as an income security system. As a substitute, the pension programme should be supplemented by enterprise and individual efforts; 2). In many advanced countries, the creation of a pension system has resulted in an enormous fiscal burden. In view of these experiences, the pension programme in Korea should be moulded to maintain a long-term balance of revenues and expenditures; 3). The pension programme should be structured in ways that will enhance equitable income redistribution; 4). The pension programme should promote social welfare in connection and coordination with related programmes; 5). The pension programme should be planned to cope with the increasing elderly and the social risks; 6). The pension programme should be modelled to go with the population policy as well as the preservation of the traditional family system and public morals.

(2). Appropriate Time for Implementation.

The MOHSA assumed a vague attitude in relation to the data of enforcement. The MOHSA only presented three alternative proposals: 1). The first option: 1987; 2). The second option: 1988; 3). The third option: 1989.

(3). The Scope of Coverage.

The MOHSA suggested that all employed persons aged between 18 and 60 were to be covered under the plan. In the early stage of implementation, however, work places having 10 or more employees should be covered due to the ready availability of their wage statements. The system should eventually be expanded to cover all work places and workers. The self-employed, including farmers and fishermen, should be insured on a

¹ The Bureau of National Pension(1985), The Outline of NWP Programme, The MOHSA., 19 July. and The National Pension Programme for the Sixth Five-Year Plan, 10 October.

voluntarily basis according to the average income level of wage earners. Beneficiaries of already-existing pension programmes such as civil servants, military personnel and private school teachers should be excluded from the pension programme.

(4). The Source of Finance.

1). The source of funds for the pension programme should be raised by matching contributions from workers and their employers. The employees should contribute 3 percent of the monthly earnings as a monthly contribution and their employers should contribute 4 percent. However, a different contribution rate should be applicable for low-income earners. In addition, a fixed rate of contribution(1%) should be reserved as a special reserve fund for the unemployment insurance.

2). The self-employed should contribute a fixed amount of money in proportion to their earnings. For the lower income earners a rate of contribution should be subsidised by government.

3). The government should contribute some portions of contribution rate for the self-employed whose income is below the minimum standard, and the administrative costs.

4). The employers' contributions should be treated as loss in the corporation tax law, and the contributions and benefits of the employee and the self-employed should be exempted from the income tax.

(5). Benefits.

1). Payment Methods:

a). Benefit level: Average 40 percent of the average monthly wages for the past immediate 3 years.

b). The basic pension: The amount of the pension is composed of two parts: an equal distribution part (the average monthly wage of the whole labour for the past immediate 3 years multiplied by the number of months of contribution) and income proportional part (the average monthly standard contribution for the past immediate 3 years multiplied by the number of months of contribution).

c). Additional pension: Fixed sum (1+ the rate of wage increase for the last three years).

2). Kinds of Benefits:

Benefit Type	Qualifications	Benefits
Old-Age Pension	Insured for 20 years or more. Age of 60(from age 55 in the case of special occupations)	100% of the basic pension plus additional pension.
Reduced Old-Age Pension	Insured for 10-20 years. Age of 60.	45-100% of basic pension plus additional pension.
Special Old-Age Pension.	Age 40-60 who are not able to meet the requirement of benefits at the initial stage of implementation of pension programme.	(Special case). When the insured contribute a certain amount of months, 100% of the basic pension plus additional pension.
Disability Pension	Insured for 3 years or more as of the day of first medical examination.	Benefits are determined by the degree of disability: a). 1st degree: 115% of basic pension plus additional pension. b). 2nd degree: 70% ... c). 3rd degree: 35%... (But, the additional pension should be given when the insured are 60 years or more).
Survivor Pension.	When anyone of the following persons dies: a). Person insured for 3 years or more, or former insured person who insured 10 years or more. b). Person entitled to the old-age pension or the disability pension of the 2nd degree or higher.	30-50% of basic pension plus additional pension.

Unemployment Allowance.	The person whose insured term is 3 years or more, and then unemployed involuntarily more than 3 months.	70% of basic pension plus additional pension from 3 months to 9 months.
Lump-Sum Refund.	a). Person whose insured term is less than 10 years and who has lost insured status for more than one year(for women) or reaches the age of 60. b). Insured person whose insured terms is less than 3 years upon death. c). Former insured person has died before 60 years old.	Sum of contributions by the employer and the employee plus interest.
Additional Pension.	a). Old-age pensioner. b). Disability pensioner(But, additional pension should be benefited when the insured are 60 years old in case of the 3rd degree). c). Survivor pensioner.	The fixed sum(1+ the rate of wage increase for the last immediate 3 years).

(6). Organizational Structure.

The MOHSA proposed three alternative options: 1). The first option: The government should take charge of the pension operations; 2). The second option: The establishment of the Korean Pension Corporation; 3). The third option: The application of Medical Insurance organization.

(7). Utilization of the Pension Fund.

The objectives for the operation of National Pension funds should be the maximization of returns rates and long-term stability. It should also be invested in public interest-related projects such as housing fund loans and recreation facilities for the pensioners.

2. The EPB Proposal.

The EPB also made its own pension plan for the Six Five-Year Plan. The contents of the pension programme was as follows:²

(1). The Basic Directions: 1). The benefits should be sufficient to guarantee the basic minimum standard of living; 2). The pension programme should be planned to preserve a long-term financial balance in revenues and expenditures; 3). The contribution should be gradually increased to avoid imposing an excessive burden on the Korean economy; 4). The pension programme should expand its support to the low-income group through enhancing a redistribution function; 5). The pension programme should contribute to the economic development through increasing savings and developing financial markets.

(2). Appropriate Time for Implementation: January 1988.

(3). The Scope of Coverage.

All workers between the ages of 18 and 60 should be eligible for the system. In the early stages of enforcement, these workers at workplaces with 10 or more employees should automatically be eligible. Farmers, fishermen, the self-employed, and low-income workers should be encouraged to participate at their own discretion.

(4). The Source of Finance.

1). The sources of funds should be accumulated through contributions made by employers and employees and through interest earned on the money deposited in the fund. Subsidiary the money that the government has subsidised for administrative costs should be included.

2). To meet the preconditions that the system guarantees the basic living costs of pensioners and that a long-term balance in revenues and expenditures be maintained, the contribution rate should be more than 10 percent for both the employer and the employee. Currently, however, it is felt that a contribution rate of 10 percent may overburden both sides. Therefore, the rate of contribution should begin at 5 percent in the early stage of implementation and then should gradually be raised to level off at 10 percent by the year 2000.

² The EPB(1986), The National Pension System. Republic of Korea. March, In Korean.

3). The contribution rate should be charged at the ratio of 40 to 60 percent between the employee and the employer.

4). A part of the Retirement Allowance fund should be included in the pension fund to ease the employer's contributonal burden.

(5). Benefits.

1). Payment Methods:

a). The calculation of benefits should incorporate the principle of income redistribution. Benefits are composed of a basic amount and an additional amount. The basic amount is related to the average monthly remuneration of all insured persons and the average amount of the monthly standard remuneration of insured individuals. The additional pension amount varies according to the type and number of dependents. The total amount of benefits should not exceed 100 percent of the last monthly remuneration of the insured.

b). The calculation of old-age benefits should be incorporated with 20 percent of the average monthly remuneration of all insured persons and 20 percent of the average amount of the monthly standard remuneration of insured individuals.

c). For the worker who has contributed for more than 20 years, he will be paid additional benefits equivalent to 5 percent of his average monthly income for an additional 12 months' contribution.

d). The level of benefits should be adjusted by the consumer price index.

2). Kinds of Benefits:

a). Benefits under the pension programme should be in four categories; Old-Age pension, Disability pension, Survivor pension and Lump-Sum Refund for those cancelling contracts midway. The basic old-age pension is payable at age 60 to persons with at least 20 years of contributions.

b). The early reduced old-age pension should be paid upon request at age 55 to persons with at least 15 years of contributions.

c). An old-age pension for active seniors is payable at age 65 if the insured person continues to work.

d). A special old-age pension should be paid to those between 45 and 60 years old who are not able to meet the requirements of benefits at the initial stage of implementation of the pension programme.

e). The pension should be reduced for persons with 15-20 years of coverage.

f). If a person with at least one year of coverage becomes disabled as a result of sickness or injury, a disability pension is payable in accordance with the degree of disability. In this case, the pension should be equivalent to 40-80 percent of the old-age pension.

g). For persons with at least one insured year and pensioners, a survivor pension ranging from 40 to 60 percent of the old-age pension should be paid to the spouse or children under 18 years old.

h). A lump-sum refund is payable upon request of the insured whose insured term is less than 15 years, and when he loses his insured status for more than one year. The refund should be the total of the contributions of both the employee and his employer at a fixed rate of interests.

(6). Organizational Structure.

a). As to the organising the Fund's operation, the government should establish the Office of National Pension or authorise a public corporation under the protection of government.

b). The present various social security organizations should be unified into a comprehensive central agency.

c). The administrative centre should utilize the existing related organizations such as post office, bank, medical insurance organization and industrial accident compensation insurance organization, to reduce administrative costs.

d). The computerization between central and local organizations should be established for the management of pension systems.

(7). The Utilization of Pension Fund.

1). The basic principle: The management of pension funds should be focused on safety, high returns, enhancement of public interest, long-term stability and increase in benefits for pensioners. Therefore, the employment of funds should be shared between the private and public sectors.

2). The organizational system: A Committee for National Pension Fund Operation should be organized. The committee should consist of representatives from the government, labour, management, and experts in this field. The committee should provide guidelines for fund operation with regard to the following matters:

- a). The ratio of fund assets to be used for public and private sector projects.
- b). The creation of a trust body for the management of profitable projects.
- c). The supervision and investigation of fund management.

3). The operational method:

a). When the government or public enterprise appropriate the pension funds for public sector projects, they can issue government or public bonds. In this case, the profits should be higher than that of one-year time deposits at city banks.

b). When the funds are utilized at a low rate of interest in promoting the welfare of the insured, the financial agencies should be applied. In such a case, the government should compensate for the gap in interest rates.

c). In principle, the fund should be invested diversely among the trust financial agencies such as the insurance companies and the trust bank, to the sound development of the banking and financial markets.

4). The utilization of pension fund for the insured: Part of the pension funds for the public sector projects should be utilized to the contributors' direct benefit. For this purpose: a). The fund should be invested for financing construction of houses for low-income households; b). The fund should be invested for the essentially required expenses such as the education and marriage; c). The insured should loan out a rehabilitation fund by offering his pension as a security.

3. The KDI Proposal.

At the request of the Preparatory Committee and the MOHSA, the KDI began to work out a blueprint for the pension program. After studying the welfare system of foreign countries such as West Germany, Britain, the U.S. and Japan, and the long-term financial prospects and socio-economic effects, the KDI formed its vision of the pension system in June 1986.³ The KDI report was composed of two parts. In the first part, the KDI analyzed the development of pension systems in the major advanced countries, the necessity of a pension programme in Korea and the components of the related systems. They then suggested a master plan for the pension

³ Jae-Sung Min et.al.,(1986), Master Plan and Economic and Social Effects of the National Pension Scheme. The KDI, September. In Korean.

programme. In the second part, the KDI attempted to show the socio-economic effects. In conclusion, the report mentioned that the present study is only preliminary and may be followed by a series of studies culminating in the final choices and implementation.

The contents of the KDI's proposals are briefly as follows.

(1). Major Objectives.

Based on a review of the changes in the socio-economic conditions of Korea, the experiences of advanced welfare states, and Korea's ability to pay contributions, it is desirable to develop a National Pension system which can retain the following objectives and characteristics: 1). The system should be able to pay pensioners, either the aged or those who have lost their ability to earn income, at least enough to meet the national minimum level of living costs; 2). The system should be modelled to maintain a long-term balance of revenues and expenditures; 3). The system should adjust contributions gradually to minimize possible shock to the national economy. It should link contributions to benefits as much as possible so that a solid foundation for the system can be established; 4). The system should contribute to promoting equity by redistributing income to stabilize the living standards of low-income classes; 5). The system should contain mechanisms to guarantee the profitability, stability, and public interest of the funds accumulated before maturity.

(2). Scope of Coverage: 1). All employed persons aged between 18 and 60 should be covered under the programme. Initially, however, only work places having 10 or more employees should be covered due to the ready availability of their wage statements; 2). The self-employed, including farmers and fishermen, should be insured on a voluntary basis; 3). Beneficiaries of already-existing pension programmes such as for civil servants, military personnel and private school teachers should be excluded from this programme.

(3). Sources of Funds: 1). The sources of funds for the pension programme consisted of contributions from employees and employers, government subsidy for administrative costs, and interest accruing on the accumulated fund. To meet the preconditions that the system only guarantee the basic living costs of pensioners and that a long-term balance in revenues and

expenditures will be maintained, contributions should be more than 10 percent for both employers and employees. Currently, however, it is felt that contribution of 10 percent may be too burdensome. Therefore, the contribution rate should be increased step-by-step from 2.5 percent in the early stage of implementation to 10 percent by 2000.

2). The contribution rate should be charged at the ratio of 40 to 60 percent between the employee and the employer. However, a part of the Retirement Allowance Reserve should be included in the pension fund allowing for the employer's contributonal burden. To this end, the KDI suggested two plans.

Table: Schedule of Contribution Rates. (In percent).

	1988-91	1992-95	1996-99	2000-
Total	2.5	5.0	7.5	10.0
Employee	1.0	2.0	3.0	4.0
Employer	1.5	3.0	4.5	6.0
(The First Plan)				
From Retirement Allowance Reserve	1.5	3.0	4.5	6.0
(The Second Plan)				
Employer	1.5	1.5	1.5	1.5
From Retirement Allowance Reserve	-	1.5	3.0	4.5

(4). Benefits: 1). There are four kinds of benefits under the pension schemes; old-age pension, disability pension, survivor pension and lump-sum refund. The basic old-age pension is to be paid to those who turn 60 and have been insured for 20 years or more. If they have been insured for 20 years, the benefits will be on average 40 percent of the last monthly remuneration paid to the insured; 2). The amount of the pension is composed of two parts: an equal distribution part(average monthly remuneration of all insured persons in the year preceding the year of the pension payment) and income proportion part (the average standard monthly income during the aggregate insured term of the insured person). The total amount of benefits can not exceed 100 percent of the last monthly remuneration of the insured; 3). If the insured continue to work beyond 60

years old, they should receive amounts equivalent to 50 to 100 percent of their last monthly income; 4). An early reduced old-age pension should be paid upon request to those who retire at the age of 55; 5). A reduced old-age pension should be paid to those who have been insured for 15 to 20 years; 6). When the insured whose insured term is one year or more are disabled due to accidents or diseases, the disability pension equivalent to 60 to 100 percent of the old-age pension should be paid according to the degree of disability; 7). If the insured die after one year or more of contribution, 40 to 60 percent of the old-age pension should be paid to their spouse or children under 18 years old; 8). A lump-sum refund should be payable upon request of the insured whose insured term is less than 15 years. The refund should be the total of the contributions by both the insured and his employer at a fixed rate of interest.

(5). Organizational Structure: 1). The government should establish the independent public corporation under the protection of government; 2). The administrative affairs should utilize the existing related organizations to reduce of administrative costs; 3). The government should establish the National Pension Fund Management Committee. The committee members should include representatives from the government, labour, management, and experts in this field.

(6). Co-ordination of the Related Systems.

1). The Retirement Allowance System: The fund of present Retirement Allowance runs parallel with the required legal minimum rate(8.3% of worker's monthly remuneration) and the autonomous progressive rate. Therefore, the legal rate should be transferred to the public programmes such as the pension programme or the unemployment insurance; on the other hand, the autonomous progressive rate should be developed voluntarily and independently as a company's own retirement allowance system. However, the transfer should be fulfilled on a step-by-step basis, because the sweeping changes simultaneously with the implementation of a pension programme would be a great shock to the pension subscribers as well as the employers.

2). The Industrial Accident Compensation Insurance: As for the relationship between the pension programme and the industrial accident compensation insurance system, the two systems should be separately

developed concerning the disparity in purpose and maturity. However, a clear criteria should be worked out to avoid double benefits being given under the two schemes if an insured person becomes disabled or dies. Therefore, when the insured acquires both benefits claims at the same time and applies for the industrial accident compensation insurance, the pension benefits should be readjusted and a lump-sum refund should be payable according to the contributions as a interim measure.

3). The Special Pension System: The three pension schemes for civil servants, military personnel, and private school teachers have already been independently established. Therefore, conflicts in contributions and pension benefits are predictable for those whose change in employment results in a transfer between schemes. However, measures to adjust the contributions and pension benefits between schemes should be worked out.

(7). The Socio-Economic Effects.

1). The Effects on Savings and Financial Markets: The rising level of savings expected to be mobilized by the pension programme can be explained by the fact that during the initial period benefit payments will absorb only a small fraction of the contributions, leaving a large surplus because the pension scheme will be operated by a fund accumulation method. When the pension programme becomes effective in 1988, the system will have in effect, to raise the domestic savings ratio by 0.3 to 0.55 percent by mid-1990s. In addition, the pension programme should contribute to the development of financial business through an increase of long-term financial savings.

2). The Redistribution of Income: The formula for computing benefits under the pension programme has a "double layer" approach which combines both the universal fixed-amount pension and the earnings-related pension. Therefore, the high replacement rate for low income-earners and the minimum benefit--the universal fixed amount portion of the pension--can be interpreted as a guarantee of a minimum floor of income. Another aspect of this redistributive impact of the pension programme is indicated by its old-age benefits structure which is heavily weighted in favor of those with low earnings records. In other words, benefits are relatively larger for those with low earnings than for those with high earnings.

3). The Effect on Labour Market: a). The old-age pension for active seniors should minimize the falling of early retirement; b). The transference

of employer's contributions from the Retirement Allowance System to the pension programme should minimize the employment reduction; c). However, the second plan for fund accumulation should effect the labour market in a larger way than the first plan.

4). The Effect on Social Stability: a). The introduction of a pension programme should contribute to the alleviation of social tensions and the inadequacy of welfare demands; b). The pension programme should positively cope with the trends towards ageing society and nuclear family; c). The pension programme should build up a collective responsibility through dispersion of social risks to the whole nation; d). The pension programme should raise a social equity through income redistribution.

(8). Conclusion.

Consequently, the introduction of a pension programme will contribute to social stability as well as economic development. As for the age structure of the working population, the baby-boom generation began to enter the labour market in the early 1980s, signifying the need for early implementation. Allowing for the preparatory works such as a survey of public opinion and the build-up of an administrative structure, the pension programme should be implemented from 1988.

Appendix 4: The Contents of the Suggestions for the Revised Pension Programme and Their Outcome.

The MOHSA Proposal.	Suggestions (Organizations).	Outcome.
The Sphere of Workplace: "Workplace" is defined as the workshops or offices which employ more than 5 employees."more than 10 employees." (Minister of Commerce & Industry).	This will be amended to "the workshops or offices which regularly employ more than 5 employees."
The Voluntary Application: When more than two thirds of the workers request participate in the pension fund, their employer must apply to the Ministry of MOHSA for the application of this law."employees and their employer should apply to the Ministry of MOHSA by mutual consent.".....(Ministry of Commerce & Industry).	This will be amended to "the voluntary provision."
The Officials: The Minister of MOHSA shall appoint the Chief Director, the Executive Director and the Standing Auditor.	The President shall appoint the Chief Director on the recommendation of the Minister of MOHSA. (The EPB).	The President shall appoint the Chief Director on the recommendation of the Minister of MOHSA. However, the Minister of MOHSA shall appoint the Executive Director and the Standing Auditor.
The Commissioning of Service: Provision of the services shall be delegated to the medical insurance organization, the Post Office or the financial institutions.	The provincial government organizations and the government investment institutions should be added.(The EPB).	The suggestion should be adopted.
The Assessment of the Basic Pension: The basic pension shall be calculated at the average standard monthly income during the insured term.	The law should make it clear that the basic pension should be readjusted according to economic fluctuations.(The EPB).	The suggestion should be adopted.

<p>The exemption from Taxes, etc: A pension paid under this law shall be exempt from taxes and other charges by the central and provincial governments in accordance with the Tax Exemption and Reduction Control Law and the regulations of provincial governments.</p>	<p>This article should be eliminated because the Tax Law already deals with it. (The Minister of Finance).</p>	<p>The suggestion should be rejected because the article is already dealt with the present NWP programme. However, the wording should be modified from "...be exempted" to "...be reduced".</p>
<p>The Old-Age Pension for Active Seniors; Those aged 60 to 65 who have been insured for more than 20 years and those over age 65 who have been insured for more than 15 years but less than 20 years shall be paid a certain amount of pension while they are employed by way of compensation.</p>	<p>The second condition that "those over age 65 who have been insured for more than 15 years but less than 20 years" should be eliminated.(The EPB).</p>	<p>The extension of the insured term should be encouraged to raise their income security after disqualification. The insured who are eligible for the old age pension but are deprived of the qualification before the legal contribution period expires, may continue to contribute till 65 years old.</p>
<p>The Early Reduced Old-Age Pension: Those who have been insured for more than 20 years, those who have been insured for more than 15 years but less than 20 years, and those whose age is 55 or over and those who have not a job with some remuneration shall be paid a certain amount of pension.</p>	<p>The second condition that "those who have been insured for more than 15 years but less than 20 years" should be eliminated(The EPB).</p>	<p>The suggestion should be adopted.</p>

<p>The Ceiling on Old-Age Pension: The old-age pension shall not exceed 100 % of the standard monthly income in the year before the first year of pension payment as calculated on the basis of the average standard monthly income during the whole insured term.</p>	<p>The old-age pension shall not exceed 100 % of the standard monthly income as calculated on the basis of the average monthly income in the year before the first year of pension payment (The EPB).</p>	<p>The old-age pension shall not exceed 100 % of the standard monthly income in the year before the first year of pension payment as calculated on the basis of the average standard monthly income in the last 5 years of the insured term.</p>
<p>The Amount of Disability Pension: The amount of Disability pension shall be one of the following amounts according to disability class: a). 100 % of the basic pension plus an additional pension for class 1 disabilities; b). 80 %.....for class 2...; c). 60 %.....for class 3...</p>	<p>The class 4 disabilities should be added and 150 % of the basic pension shall be paid as a lump-sum disability pension (The EPB).</p>	<p>The lump-sum disability pension shall be paid for slight injury.</p>
<p>The Amount of Lump-Sum Refund: The sum of contribution by the employee and the employer and converted retirement allowance reserve, plus interest on the said sum.</p>	<p>The interest rate of deposits at city banks should be clarified by the law. (Ministry of Labour).</p>	<p>The interest rate of deposits at city banks shall be stipulated by Presidential Decree.</p>

<p>The Contribution from the Retirement Allowance System: The amount of transference from the Retirement Allowance Reserves to the pension funds shall be 7 days or more out of 30 days from 1993 to 1997, and then 10 days or more out of 30 days after 1998.</p>	<p>a). The wordings “seven days or more” and “ten days or more” should be revised to 2 % of average monthly standard income and 3 % of average monthly monthly standard income(The EPB). b). The wordings “Seven days or more” and “ten days or more” should be revised to the “seven days” and “ten days”(The Min. of Labour).</p>	<p>The EPB suggestion should be adopted.</p>
<p>The Fine for Default: In case employers fail to pay the contribution, the MOHSA shall collect fines for default computed on the basis of 0.007 for average 100 won in arrears per day.</p>	<p>The rate of fine for default should be stipulated by Presidential Decree (The EPB).</p>	<p>The suggestion should be adopted.</p>
<p>The Employment of Pension Fund: The Minister of MOHSA shall invest a part of pension funds for the contributors' and the pensioners' welfare.</p>	<p>Besides the investment for the contributors' and the pensioners' welfare, the pension funds should be invested the public enterprises (The EPB).</p>	<p>The suggestion should be adopted.</p>

<p>The Committee for National Pension Fund Operation:</p> <p>a). Chairman: The Prime Minister.</p> <p>b). Members: The Ministers of related departments, representatives of employers and employees and related experts (9-11 persons).</p>	<p>Chairman: The Minister of EPB.</p> <p>Members: The Chief Director of the National Pension Corporation should be included (The EPB).</p>	<p>a). The Minister of EPB shall be the Chairman and the Minister of MOHSA shall be the Vice-Chairman.</p> <p>b). The Chief Director shall be excluded from committee membership because he is the only head of an executive body which is working based on the established plan.</p> <p>Instead, the Minister of the Agriculture & Fishery Department and the Minister of the Commerce & Industry Department shall be included.</p>
<p>The Request for Examination and Re-examination of Complaints: Those insured having complaints about their qualifications, standard monthly contributions or pensions may submit applications for examination of such complaints to the National Welfare Review Committee, and may submit applications to the Re-examination Committee if they are dissatisfied with the National Welfare Pension Review Committee.</p>	<p>a)..... may submit applications for examination of such complaints to the National Pension Corporation.</p> <p>b). Applications for examination shall be submitted in writing within 60 days from the day after the notice of the original action is delivered or the applicant is informed of such action (The Min. of Justice).</p>	<p>The suggestions should be adopted.</p>

<p>The Application for Examination:</p> <p>Applications for examination shall be submitted in writing in accordance with Presidential Decree within three months from the day after the notice of original action is delivered or the applicant is informed of such action.</p>	<p>a). within two months.....</p> <p>b). The Review Committee shall be established within the MOHSA in order to conduct examination and re-examination.</p> <p>c). Matters pertaining to the qualifications and appointment of the committee members shall be provided for under Presidential Decree.</p> <p>(The Min. of Justice).</p>	<p>The suggestions shall be adopted.</p>
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